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The Political Economy of Land Grabbing

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"Land grabbing" or, less emotionally charged, large-scale land acquisitions[1] (LSLA), which occur mainly in the Global South, have become the center of a heated political and academic debate. So far, economists have mostly abstained from this debate. This may possibly be explained by the fact that they view these kind of deals in land property primarily as an opportunity for improved local economic development in poor countries. Arguably, foreign investors are then assumed to be able to utilize arable, but mostly idle land more efficiently than locals (cf., e.g., Deininger/Byerlee, 2011). At the same time, critics (mostly from other disciplines) claim that these very land deals have highly detrimental effects on local populations, especially smallholders, as neither governments nor international investors typically care much about these people's interests and do not honor their often informal land-use rights (cf., e.g., Cotula, 2011). They claim that this may then endanger the local people's livelihoods.

There is certainly some truth to both of these perspectives. Many land-abundant countries do indeed lack sufficient levels of both real and human capital to complement their production factors, land and (low-skilled) labor. Foreign investors may provide both types of capital and thus help to foster agricultural as well as industrial development. However, one can hardly deny that especially in institutionally weak states, investments are prone to yield undesirable effects such as the clash between the more powerful groups in society (sided by potential investors, both domestic and foreign) on the one hand and other, less powerful societal groups such as the rural population or ethnic minorities on the other hand.

Against this background, a purely welfare-theoretic view on land grabbing would be too narrow to pursue and should be complemented by a politico-economic perspective, possibly based on

[1] LSLA may be defined as intended, concluded or failed attempts to acquire land through purchase, lease or concession. More specifically, for a land deal to be recorded by the most comprehensive dataset on this issue, the *Land Matrix*, the deal must (i) entail a transfer of rights to use, control or ownership of land through sale, lease or concession; (ii) have been initiated since the year 2000; (iii) cover an area of 200 hectares or more; and (iv) imply the potential conversion of land from smallholder production, local community use or important ecosystem service provision to commercial use (cf. Land Matrix Global Observatory, 2015).

arguments related to property rights assignments and their effects on the behavior of economic agents (including local smallholders, international investors and target-country governments).[2] In addition, one should also take into consideration that – once the argument is extended beyond the benefits of pure economic exchange (between landowners and international investors) – there will be winners and losers of land deals in a society, and that losers might revolt for their share in rents from land use. That is, a political-economy perspective on land grabbing should also allow for resource exhausting conflict (including, among other forms, civil wars, civil unrest or terrorism) between different groups of involved actors.

Putting all these aspects together properly is a challenge and probably overburdens a single economic model. The present special issue on the "Political Economy of Land Grabbing" therefore aims to provide perspectives on this wide topic from very different angles, each of them being mosaic pieces of a large politico-economic picture of land grabbing in institutionally weak countries. Let us nevertheless attempt to sketch a comprehensive model of a political economy of land grabbing, containing elements from all papers presented in this special issue. We will first briefly present our model and then explain how the contributors' papers relate to our framework.

At the heart of our theoretical exercise lies a core-periphery argument with influential, i.e. relatively powerful, political and economic elites living in the (urban) core of a land- (and, possibly, labor-) abundant nation, while smallholders, who might in addition be members of an ethnic minority, live in the (rural) periphery. Land-abundance applies to the periphery, not to the core (for instance, the country's capital).

We assume that there is a – more or less elaborated – national legislation regarding property rights of land, but that the population in the periphery is either unaware of this legislation due to, e.g., illiteracy or it ignores the legislation due to dominant customary law and informal institutions such as traditional land-use practices at the local level (e.g., nomadic grazing). As long as the periphery's land is of no specific interest to anybody except the local smallholders, the core does not enforce national property rights legislation on land. In fact, sometimes the core does not even bother to introduce a specific legislation of this type, given the lack of general interest in land of anybody beyond the distantly located peripheral population.[3]

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[2] Diergarten/Krieger (2015) propose to extend this domestic law & economics perspective by also considering a feedback loop via international law (both investor's and human rights law).

[3] Note that this refers to a general problem with respect to the introduction of land rights. Often these rights have been established by colonial powers, national governments consisting of urban elites, ethnic majorities and other groups with no specific interest in the use of peripheral land. This explains why the vital interests of local populations in the periphery are typically ignored.

As long as the core leaves the peripheral land without restrictions to the local population, the legislation on land property does not constitute a source of conflict. However, this deliberate non-interference with the periphery's matters has become seldom in recent times. The reason for this is that the supposedly idle land of the Global South has become a major attraction to international investors. About one decade ago, a global "land rush" of investors from more affluent parts of the world began (cf. Aretzki et al., 2015). With this, peripheral land became a valuable resource also from the perspective of the elites in the core. In order to extract rents from land use and land lease, creating and enforcing property rights of land, regardless of whether for benevolent or selfish reasons, becomes essential. Given that the attractive land areas are typically distant from the core, the latter intrudes – physically and/or legally – into the peripheral regions of the country. The core takes over the responsibility for selling or leasing peripheral land to the mostly foreign investors because the local population is either not able to or not interested in handing over property rights to these investors, which would, however, be the precondition for the core's elites to extract any rents from the land.

According to Hunziker/Cederman (2015), this kind of state intrusion could be the source of significant (ethnic) grievances resulting in disagreement and conflict. The most obvious grievances relate to the distribution of resource rents. In fact, the distributional aspects of land deals are probably the main concern of most NGOs and development agencies working in this field. From our above assumptions and reasoning it follows that the interests of the core and the periphery are unlikely to be aligned. Especially a self-interested core may engage in rent extraction or at least rent-seeking activities at the expense of the periphery. The more powerful the core, the more likely that a disproportionately large share of the rents from land use will be allocated towards the core, leaving the periphery without the expected or hoped-for windfall gains from utilizing the land more efficiently. Often, representatives of the core and the foreign investors make promises to "buy" the acceptance of the local population that turn out to be false later on.

Next to missing payments, it is especially problematic that smallholders may no longer be allowed to use the land for farming. This is an often seen phenomenon in countries with substantial land grabbing activities (in fact, this is why these land deals are considered land "grabbing"). Farmers become dependent on jobs offered by the new landowners or leaseholders, but with technological progress due to investments in modern agricultural machinery fewer workers will be needed on the fields, causing local unemployment to rise in most cases. Hence, the economic core-periphery differences and, thus, grievances tend to increase. The ensuing frustrations will likely be aggravated further when core and peripheral populations have different ethnicities, which are often exploited in conflict environments. The rural population may fall victim to agitation against the core elites and increasing frictions possibly leading to open conflict.

There are two further, often interconnected complications in this situation: in-migration and threats to local elites. In order to run a sophisticated farming system, the new landowners need sufficiently skilled workers. Typically, however, there is not a sufficient supply of the demanded qualifications in the rural workforce. This is especially true for managerial positions, foremen and the like. Rather than employing locals (and in particular local elites) investors often resort to workers from the core, other regions of the country or from outside the country. While rent extraction leads to income and wealth differentials between the core and the periphery, in-migration leads to very similar differentials between locals and in-migrants within the same region. This type of inequality might be particularly threatening because it is salient on a daily basis. As Hunziker/Cederman (2015), although in a different context, argue, "[d]aily confrontations and competition serve as conspicuous reminders of pervasive inequality". Note that, again, the problem becomes even larger once ethnic differences play a role because typically in-migrants do not have the same ethnic background as locals.

This problem concerns local elites even more than ordinary people as they become increasingly marginalized. On the one hand, the intruders from the core have little interest in leaving too much control to local chiefs (partly out of distrust, partly because they assume the locals lack administrative skills). On the other hand, there is much to lose for local elites because if they credulously support the investors in the beginning, and ultimately the investment project turns out to be detrimental to locals, they might lose their standing among their people. A rational strategy for local elites might therefore be to oppose investment projects from the start, adding to the conflict potential arising with these deals.

Finally, one should not ignore the potential of supposedly "modern" types of agriculture to produce severe negative externalities. For instance, nomadic grazing or specific crop rotations have developed over the course of centuries, treating the landscape carefully and conserving bio diversity. Modern agricultural technologies and the extensive use of fertilizer typically ignore these traditional ways of farming, leading to environmental harm in the medium to long run. Even more dangerous is the wasteful use of scarce water resources and reservoirs for producing agricultural commodities.[4] The extensive use of phreatic water in the dry regions of

[4] E.g., Allan (2003) uses the term „virtual water" to describe this specific use of water resources and the resulting problems.

the Global South affects habitat conditions in wide areas of a country and possibly across borders, causing problems of its own. Traditional welfare theory would suggest using taxation to internalize these negative externalities and to restore the welfare maximum (alternatively, an appropriate property rights assignment could be employed to find a Coasian solution). However, our politico-economic core-periphery framework suggests that it is much more likely that the core simply ignores the negative effects on the periphery.

Our, admittedly over-simplifying, model therefore suggests that opposing interests of the elites in the core and the rural population in the periphery may lead to suboptimal outcomes. Rent-extraction and rent-seeking activities of the ruling elite in the core will cause grievances related to the inequality in the distribution of rents at both the national and local level, to a shift of political authority at the local level from traditional chiefs to outsiders, and finally to negative externalities primarily affecting the rural population. The situation becomes even more problematic once ethnicity plays a role with people in the core and the periphery belonging to different ethnic groups.

It is a well-known fact that grievances may trigger substantial individual responses and political struggle at the societal level. Applying Hirschman's (1970) famous notion of possible responses, *exit*, *voice* and *loyalty*, we would expect, however, a differentiated picture of how the rural population will react to the increasing intrusion from the core. Often people start with loyal support of the investment projects. They hope for a better future and initially this appears possible at least for some locals. If windfall gains come as hoped for by the people (even if they are small), loyalty stays strong, even if this does not exclude an unfair distribution of the actual gains between the core and the periphery. Since both the core and the periphery gain, a Pareto improvement is possible. Economists tend to favor this view on large-scale land acquisitions, although they would probably acknowledge that the distribution of gains is unfavorable to the periphery.

The exit option might appear economically rational, but its outcomes are often undesirable. Standard migration theory suggests that people migrate to improve their personal living conditions (Sjaastad 1962) by, e.g., moving to a place that offers higher salaries. While people might be poor when farming the traditional way, it is hardly in their interest to be driven out of their home territory due to exclusion from their land, even if this land has been used only based on informal rights. Hence, out-migration comes with a large disutility and it is far from obvious that this negative effect can be compensated by a higher income abroad, given that these dislocated workers rarely have sufficient skills to succeed elsewhere. However, as shown above, it might be exactly in the interest of the core’s elites to have local people leave the periphery in order to replace them by their followers.

The most problematic solution in terms of reduced national welfare (this time not only for the periphery, but arguably also for the core) is voicing dissent with the core’s politics. While demonstrations or opposition in the next elections are relatively harmless, the situation in most countries is more complex. Here, voicing dissent may also include the possibility of civil unrest, riots, violent attempts to achieve secession, civil war or terrorism. Whether a single land deal can have such far-reaching consequences is an open question, but if core-periphery conflicts are already prevalent, a biased land deal may be the straw that broke the camel’s back. Hardly surprising, ethnic divides make a scenario like this particularly likely.

The present special issue on the “Political Economy of Land Grabbing” picks up a number of ideas discussed above. Most closely linked to the sketched model is the paper by Bujko et al. (forthcoming), who focus on the question which circumstances favor land deals between “the core” and foreign investors. In their analysis, combining data from the years 2000 to 2011 from 157 countries, the authors find that corruption of core elites is a major factor. Put differently, the economic arguments mentioned towards the beginning of this editorial, which favor land deals due to increased efficiency in the use of land, appear to be of relatively little importance in the decision to sell large parcels of land to investors abroad.

The second paper by Albrecht et al. (forthcoming) tries to analyze experimentally whether foreign investors actually are willing to grab others’ resources, given the risk that their choice is dependent upon approval of the elite in the core. “Investors” were allowed to appease “authorities” by offering a bribe, but not knowing which bribe the authorities would find acceptable. The authors find that a majority of their subjects were willing to take this risk, and even made losses (on average) as compared to the Nash outcome. Further, authorities tended to accept the bribe and not claim the assets themselves.

Marfurt et al. (forthcoming) turn the focus to a single, real case of LSLA in Northern Sierra Leone, which is considered a best practice-example by UN agencies. Even for this project, promising at the outset, the authors find that it turned out less profitable than it was hoped to be. A lack of employment possibilities for the rural community, the periphery in our above terminology, raised resistance against these land deals. The authors also highlight the importance of networks between investors and local people, which allow for communication between the parties affected by LSLA deals.

Applying Hal Varian's (an economist) concept of fairness, Fernández/Schwarze (forthcoming) conclude that in a majority of cases, LSLA in Sub-Saharan Africa cannot be judged "fair". Because local smallholders in the periphery are worse-off in most of the 81 cases the study is based on, the authors judge LSLA to not lead to Pareto-improvements, which are defined as changes leaving at least one party better-off, without worsening the situation of any other party. Inasmuch as Pareto-improvements (actually, Pareto-efficient outcomes) are one of two fundamental criteria upon which Varian bases his concept of fairness (the other is envy-freeness), the LSLA cases considered cannot be fair.

Taken together, these papers therefore paint a rather dark picture of Large Scale Land Acquisitions: They are prone to take place in countries suffering from high levels of corruption; investors are willing to take the risk of having to bribe authorities, not knowing whether this will secure their land holdings; even best-practice examples lead to resistance from locals; and in a plethora of cases, the outcome cannot be judged "fair" according to one prominent concept of fairness, which was formulated by a more than well-known economist. Other economists are invited now to take our special issue as a challenge and work on this interesting and politically relevant topic in order to prove the impression presented here wrong.

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