

INFLUENCE OF FOREIGN DIRECT INVESTMENTS ON AGRICULTURE AND ITS ECONOMIC CONSEQUENCES

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Objectives:

To study the foreign direct investments and reveal their influence on agricultural sector, value added and growth of economy in Armenia.

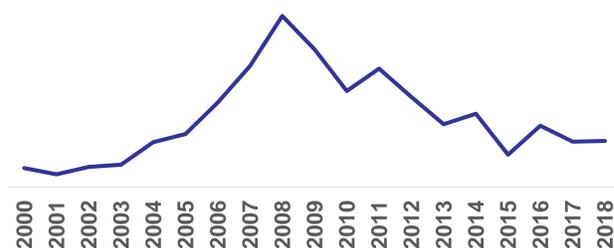
Introduction:

- In the modern global economy, foreign direct investment (FDI) has been argued to play a key role in accelerating economic growth in many developing countries.
- FDI is an economic factor that affects the growth of the host country through the transfer of the latest technologies, financial resources and know-how, firms' reorganization and development, integration in global markets and increase of competition.
- However, unlike the economic theory that has stated several channels through which FDI inflows can ensure sustainable economic growth to the host country, the empirical studies has had uncertainties in identifying conclusive results regarding the influence of FDI on agriculture sector of receiving countries.



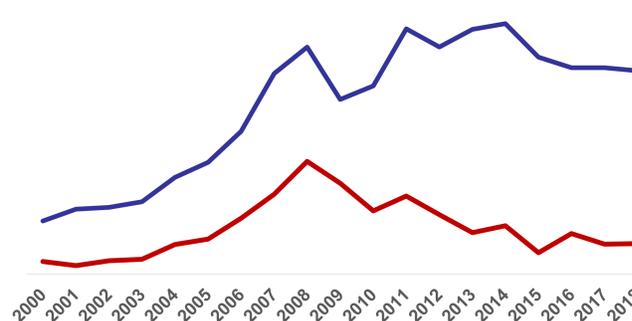
Background:

- In early 2000s FDI inflows to Armenia were constantly increasing. After the 2008 financial and economic crisis, FDI inflows to Armenia started to decline.



FDI, net inflows (current US\$)

- In 2000-2008, Armenian agricultural technology experienced significant changes in plant production, livestock, and husbandry, which was reflected in increase in agricultural value added.

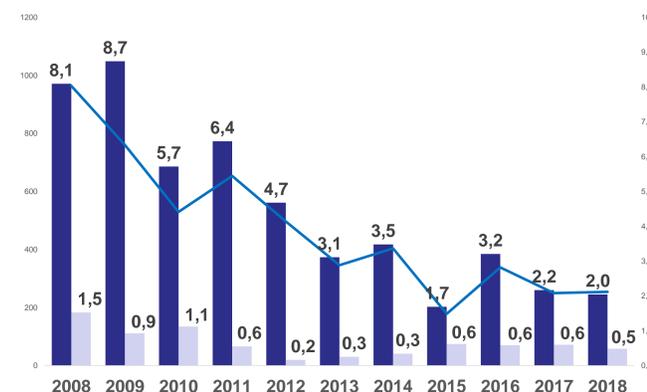


— FDI, net inflows (current US\$)
— Agriculture value added (current US\$)

- FDI inflows to Armenian economy was mainly intended for mining, construction, water resources management, energy sector. FDI inflows to agricultural sector were less than 2%.
- However, the decline of FDI flows causes the decline of agricultural production and agricultural raw materials exports.

Results:

- The analyzing technique for the quantitative measurement and modeling of the agriculture output, employment and FDI net inflows in developing and emerging economies was performed.
- Results suggest, that the behavior of FDI inflows, FDI as percentage of GDP and the agricultural raw materials export as a percentage of merchandise exports was coincident and have a downward trend in 2008-2018.
- Analysis showed, that the decline of FDI flows causes the decline of agricultural production and the decline of agricultural raw materials export.



■ Left axis: FDI, % of GDP
■ Left Axis: Agricultural raw materials export, % of merchandise exports
— FDI, mln. USD

- The analysis and quantitative assessment of poverty and its relation to agricultural value added and the level of agricultural employment were performed. Results show, that increase in FDI allows decrease in rural poverty.
- The groups of Armenian agro-products and supply chains, which have comparative advantage in international market and will allow attracting FDI were determined.

Group of products	Export 1000 USD		Import 1000 USD	
	CIS	Other countries	CIS	Other countries
Live animals	0.2	6485.4	1786.1	4880.4
Fish and other aquatic invertebrates	18906.8	335.7	546.9	3782.9
Edible fruit and nuts, peel of citrus fruits or water melons	26315.3	1955.9	1996.8	37391
Edible vegetables and certain roots and tubers	18073.3	1472.2	2682.5	6153.4
Milk and dairy products, bird eggs, Natural honey, edible products of animal origin	15165.3	594.9	27916.6	19414
Preparation of vegetables, fruit, nuts or other parts of plants	213927	27945.9	29675.3	36456.7
Tobacco and manufactured tobacco substitutes	18173.8	6010.2	5148.4	11787.9
	7930.3	229852	37709.1	41455.2

- The assessment of the agricultural productivity in Armenia is implemented.
- Armenian index of the agricultural productivity was accounted at 34% of industrial productivity and comprises 0.54. In the recent 5 years it demonstrated an upward trend.

CONCLUSIONS:

- We argue that approaches studied in the paper allow to consider the significance of the agricultural FDI for the growth of economy and the GDP.
- We argue also that increase in FDI allow increasing the employment in agriculture, reducing poverty of rural producers and provide harmony in sectors of the economy as follows: agriculture, industry and services.

