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The Current Situation, Issues, and Improvement Measures of Foreign Direct Investment in China's Agricultural Economy

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Author's contribution

The sole author designed, analysed, interpreted and prepared the manuscript.

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ABSTRACT

With the rapid development of economic globalization, the connections between countries have become increasingly close, and foreign direct investment has gradually become an important factor influencing the agricultural economic development of various countries. In order to achieve their own economic development, countries have actively sought to attract foreign investment. With China's accession to the World Trade Organization and its active participation in global governance, attracting and utilizing foreign investment for domestic agriculture has become a strategic consensus for economic development amid intense global economic competition. This paper analyzes the history and current situation of foreign direct investment in Chinese agriculture, identifies the main issues faced by Chinese agriculture in utilizing foreign direct investment, and proposes corresponding solutions, including improving the foreign direct investment environment in Chinese agriculture and optimizing the structure of foreign direct investment sources.

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1. INTRODUCTION

In recent decades, the relationship between developed and developing countries has become increasingly close, and the free flow of capital globally has expanded, especially with the increase in international direct investment funds directed toward developing countries (Chen, 2016; Li & Yu, 2023). As a result, foreign direct investment has gradually become an important component of international economic development. Since the reform and opening-up, the scale of trade in exported agricultural products has grown significantly, and the level of openness has gradually increased, making China one of the countries with the highest amount of foreign investment. By the end of 2023, China had attracted actual foreign investment amounting to 11.3391 trillion yuan, maintaining a historically high level (Data source: Statistical bulletin on national economic and social development of China 2023). Clearly, foreign direct investment has become an important engine driving China's economic and social development. Foreign direct investment not only promotes the optimization and upgrading of relevant industrial structures in China but also increases employment rates through the entry of foreign-invested enterprises, introduces advanced industrial technologies, and stimulates economic growth, thereby increasing China's fiscal revenue (Chen, 2009).

Currently, as the largest developing country in China's agricultural economic the world. development is noteworthy. However, in the process of fully utilizing foreign direct investment to develop agricultural production, it has faced many restrictions from Western developed countries, resulting in a loss of some market share. With China's formal accession to the WTO and under the influence of free trade principles, China has gradually lowered the entry barriers for agricultural products and expanded market openness (LIU et al., 2023). According to statistics from the Ministry of Commerce, the amount of foreign capital in Chinese agriculture has been increasing year by year, and the amount of attracted foreign investment has also risen annually. However, the actual utilization of foreign investment in agriculture accounts for only about 1.1% of the national total. This indicates that the investment development environment for agriculture in China still needs further improvement to attract more high-quality

foreign investment to support the development of Chinese agriculture (Punthakey, 2020; He,2024). Therefore, the goal of this article is to analyze in depth the challenges China faces in utilizing foreign investment in agriculture and to propose effective strategies to create more favorable investment conditions, ultimately contributing to its sustainable development.

The organization of the paper is as follows: First, the introduction will outline the background and significance of the research, clarifying the key role of foreign direct investment in China's agricultural economy. Next, the second section will present a literature review of domestic and international studies to better understand the dynamics of related research. The third section will elaborate on the research methods and data sources to ensure the rigor of the study. The fourth section will review the development history agricultural utilization of foreign direct of investment, laying the foundation for subsequent analysis. The fifth section will analyze the current status of foreign direct investment in Chinese agriculture in detail, including changes in investment scale and dynamics of the number of enterprises. The sixth section will explore the current issues facing foreign direct investment, focusing on the rationality of the investment environment and source distribution. Subsequently, the seventh section will propose corresponding optimization strategies aimed at improving the investment environment and attracting high-guality foreign capital. Finally, the conclusion will summarize the main findings of the research and look forward to future research directions.

2. LITERATURE REVIEW

In recent years, the quality of foreign capital utilization in Chinese agriculture has continuously improved, and the introduction of foreign capital shown an increasingly diversified has development trend. Du and Lishchynskyy pointed out that against the backdrop of entering a new stage of development and tightening resource and environmental constraints, China has strengthened its efforts to attract investment, not only broadening the sources of foreign capital but also optimizing the agricultural industrial structure. At the same time, a complete investment policy and a facilitative investment environment have jointly constructed a new pattern of high-level opening up in agriculture

(Du & Lishchynskyy, 2024). Zeytoonnejad et al, in reviewing the history of foreign direct investment in China's agricultural sector, emphasized that foreign investment has not only brought in funds but, more importantly, introduced advanced technology, equipment, management experience, and highquality talent. demonstrating significant technological and knowledge spillover effects. In addition, Zeytoonnejad et al also conducted an in-depth analysis of the key factors restricting foreign direct investment and proposed policy recommendations corresponding (Zeytoonnejad et al., 2023). Lu, Y., Aikebaier, D., and Han, Y analyzed the current situation of foreign capital utilization in Shandong Province from three dimensions: investment methods, sources, and regions, pointing out the problems of insufficient total foreign capital, limited utilization levels, and uneven distribution of investment regions, and based on this, proposed improvement strategies (Lu & Han, 2023). Morck, R., Yeung, B., and Zhao, M through analyzing the scale, sources, and methods of foreign direct investment in Chinese agriculture, found that the number of registered foreign enterprises shows a "U-shaped" structure, while the number of contracts presents an "inverted U-shaped" structure; foreign capital is mainly concentrated in Hong Kong and Taiwan, with investment methods primarily being wholly-owned and joint ventures. Morck, R., Yeung, B., and Zhao, M also pointed out that there are currently issues in the agricultural investment process, such as low capital arrival rates, a single source of foreign capital, regional imbalances, and a poor agricultural investment environment, suggesting strengthening industrial guidance, innovating cooperation models, and improving foreign investment protection mechanisms (Morck et al., 2008). Fei, P. and Xu, L., by constructing an agricultural modernization indicator system and using regression models, found that foreign direct investment has the most significant impact on improving agricultural production efficiency. Therefore, it is recommended to encourage foreign capital to enter profitable areas of agriculture, increase national financial investment in improving the internal agricultural environment, and further improve the land transfer system, combining the three to promote the enhancement of agricultural modernization levels (Fei & Xu, 2009). Lei, Z. conducted an in-depth analysis of the multidimensional impact of foreign capital on Chinese agriculture using principal component regression methods, proposing measures to enhance agricultural economic development

through strengthening government support, implementing trade and investment interaction strategies, improving exchange rate protection mechanisms, promoting cross-border personnel flow, and increasing agricultural investment (Lei, 2022). In summary, various scholars have revealed the positive impact of foreign capital on agricultural modernization and high-level opening up from different perspectives, while also pointing out the current challenges and Relevant shortcominas. research provides valuable theoretical references for further optimizing foreign capital utilization strategies and promoting industrial upgrading in Chinese agriculture.

3. RESEARCH METHODS AND MAIN CONTRIBUTIONS

This article employs a combination of descriptive comparative analysis, analysis. and data analysis to effectively integrate quantitative and qualitative data, providing а more comprehensive perspective on the process and current status of foreign direct investment in the development of China's agricultural economy. On this basis, this article also points out the current problems and puts forward corresponding policy suggestions. The data mainly comes from the "China Statistical Yearbook 2013-2023", the Ministrv of Commerce and the National Economic and Social Development Statistical Bulletin. For missing data, this article makes reasonable supplements through linear interpolation.

In this paper, my main contributions are reflected in several aspects. First, an in-depth quantitative and gualitative analysis of the current situation of foreign direct investment in China's agricultural sector was conducted, revealing changes in investment scale and corporate dynamics, thus providing a solid empirical foundation for related research. Second, in response to the challenges currently faced by foreign direct investment, particularly terms of the investment in environment and source distribution, a series of practical optimization strategies were proposed. These strategies not only focus on improving the investment environment but also emphasize the importance of attracting high-guality foreign capital, providing practical references for policy formulation. In addition, this paper also looks forward to future research directions, pointing out potential development trends and providing useful insights for subsequent research.

4. ANALYSIS OF THE DEVELOPMENT STAGES OF FDI IN CHINESE AGRICULTURE

With the advancement of globalization, foreign direct investment has become one of the main driving forces behind China's agricultural development. It not only influences the continuous progress of China's agricultural modernization but also expands the scale and scope of agricultural investment in China. Generally, the utilization of foreign direct investment in Chinese agriculture can be divided into three stages: initial exploration stage, gradual expansion stage, and rapid development stage (Lv et al.,2010).

4.1 Initial Exploration Stage (Late 1970s to Early 1990s)

Against the backdrop of the Third Plenary Session of the 11th Central Committee proposing reform and opening-up, China embarked on a path of opening up to the outside world, and international trade began to gradually intensify. Agricultural foreign direct investment entered the initial exploration stage during this period. To address the shortage of funds, China introduced several preferential mechanisms to attract foreign investment. For example, the form of foreign investment evolved from being dominated by state-owned enterprises to various forms of foreign aid investment; reduction or exemption of land rent or usage fees; preferential treatment for funds expended by foreign companies investing in China; and equal treatment for the families and

other relatives of foreign investors. During this stage, the total contract amount of foreign direct investment in agriculture in China was nearly 2 billion USD, with over 2,700 projects. Among the sources of foreign capital, loans from foreign banks accounted for 48%, foreign investment accounted for 44%, and foreign aid only accounted for 8% (Data source: Compiled by data from the Ministry of Commerce). In the initial period, farmers' enthusiasm for labor remained high, and there was a strong demand for high value-added agricultural products, leading to increased investment in agriculture. Foreign investment in Chinese agriculture was primarily concentrated in the eastern coastal regions, while the central and western regions received less investment.

4.2 Gradual Expansion Stage (1990s to Early 21st Century)

In 1992, the Chinese Communist Party advocated for the development of a socialist market economy. In 2001, China officially joined the World Trade Organization. During this period, China's relationships with countries around the world became increasingly close, and foreign companies began to focus their investments on China. Recognizing the positive impact of China's agricultural foreign capital on development, China continued to introduce relevant policies and improved previous ones. During this stage, there were over 9,600 foreign investment projects in Chinese agriculture, with a contract amount of approximately 6.5 billion USD.

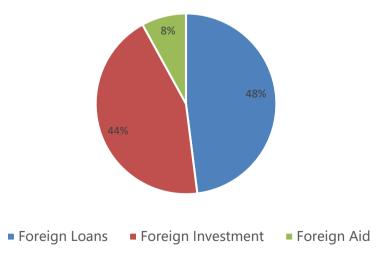
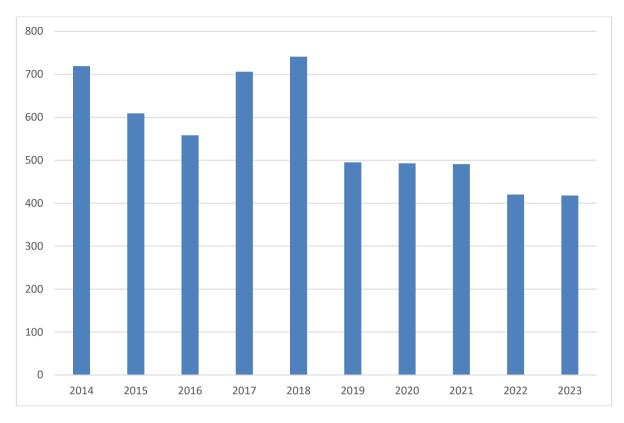


Fig. 1. Proportion of sources of foreign capital utilized in Chinese agriculture Data source: Compiled by data from the Ministry of Commerce



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Fig. 2. Number of foreign direct investment project contracts signed in Chinese agriculture from 2014 to 2023 (Unit: Count)

4.3 Rapid Development Stage (Early 21st Century to Present)

In the early 21st century, China's economic development showed a continuous upward trend, with the scale of foreign investment expanding and the domestic economic situation gradually improving, which boosted foreign investors' confidence in China. To accelerate industrial restructuring, scientifically guide foreian enterprises' investment in Chinese agriculture, and adapt to the needs of new developments, especially in light of the global financial crisis and the sudden outbreak of COVID-19, the Chinese government took timely and effective measures to minimize the impact on China's agriculture and rural economy. At the same time, to better utilize foreign capital and promote agricultural development in China, a development plan for Chinese agriculture was proposed. As China is a maior agricultural country with diverse agricultural products, low-cost prices, and a high degree of market integration, it has enhanced its ability to attract foreign direct investment, leading to a more mature investment environment. Fig. 2 shows the development history of foreign investment in Chinese agriculture.

5. ANALYSIS OF THE SCALE OF FDI IN CHINESE AGRICULTURE AND THE NUMBER OF ENTERPRISES

5.1 Changes in the Investment Scale of Foreign Capital Utilization in Chinese Agriculture

In recent years, influenced by factors such as rising anti-globalization and trade protectionism, the impact of the COVID-19 pandemic, and geopolitical conflicts. global multinational investment has experienced significant fluctuations. However, China's actual utilization of foreign capital has maintained continuous stable growth (Guangdong, 2012). According to the data in Fig. 3, from 2013 to 2022, foreign direct investment in Chinese agriculture showed notable volatility. From 2013 to 2016, foreign investment steadily increased, peaking at nearly 200 million USD in 2016. However, starting in 2017, the investment amount significantly declined, dropping to less than 40 million USD by 2019. This downward trend is closely related to the Sino-U.S. trade friction in 2018 and the subsequent impact of the pandemic. Starting in 2020, foreign investment began to recover,

indicating a gradual restoration of confidence in foreign capital regarding China's agricultural development, especially with the advancement of agricultural modernization and green development. The overall trend suggests that with the deepening implementation of the "Belt and Road" initiative and the rural revitalization strategy, foreign capital in the agricultural sector in China is expected to encounter new opportunities.

5.2 Number of FDI Enterprises in Agriculture and Capital Inflow

The data in Table 1 shows the trends in the number of foreign direct investment enterprises and total investment in Chinese agriculture from 2013 to 2022. First, the number of foreign direct investment enterprises exhibited fluctuations during this period, starting at 6,661 in 2013 and rising to 6,833 by 2017, but then sharply declining to 4,910 in 2019, before rebounding to 6,848 in 2020. This indicates annual volatility in foreign interest in agricultural investment showed a significant growth trend, increasing from 44.436 billion USD in 2013 to 1,082.7 billion USD in 2022, representing a substantial increase. Notably, between 2016 and 2017, the

total investment surged from 81.377 billion USD to 954.883 billion USD. likely related to aovernment policies encouraging foreian investment in agriculture during that period. While the number of enterprises remained relatively stable, the rapid increase in total investment indicates a higher concentration of foreign investment, with individual enterprises investing more heavily and showing increased interest in capital-intensive and technologydriven agricultural projects. This trend reflects the deepening of China's agricultural openness, with foreign capital maintaining a positive outlook on its long-term prospects. In the future, foreign investment will continue to play an important role in high-value-added and modern agriculture, helping the Chinese agricultural sector achieve faster development.

6. ISSUES IN THE UTILIZATION OF FDI IN AGRICULTURE

Currently, with the development of economic globalization, capital, services, and technology are flowing widely across borders. China is actively seizing opportunities to further increase its level of openness, but a series of drawbacks have inevitably emerged in the process of attracting foreign investment.

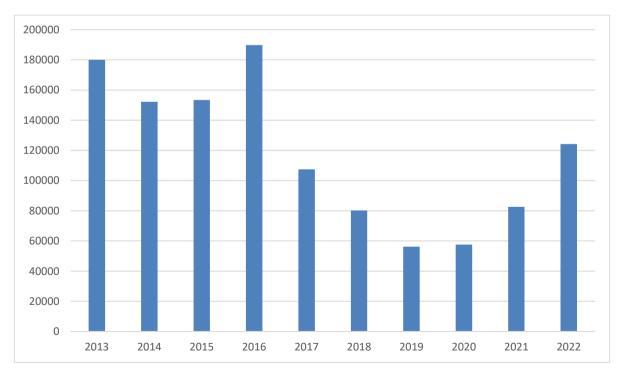


Fig. 3. Statistical data on FDI utilization in Chinese agriculture from 2013 to 2022 (Unit: Ten Thousand USD)

Year	Number of FDI Enterprises in Agriculture (Count)	Total Foreign Investment in Agriculture (Million USD)
2013	6661	444.36
2014	6784	522.14
2015	6937	608.64
2016	6866	813.77
2017	6832	9135.57
2018	6962	9548.83
2019	4910	9616.85
2020	6848	9761.72
2021	6913	10668.48
2022	6809	10827

Table 1. Number of foreign direct investment enterprises and capital inflow in agriculture from2013 to 2022

Data source: National Bureau of Statistics

6.1 Lack of Investment Environment Assurance in Agriculture

China has a long history of agricultural development, abundant human, natural, and traditional cultural resources. convenient transportation, high market demand. and extensive arable land, providing favorable conditions for foreign direct investment in Chinese agriculture. However, from the perspective of the overall investment environment in Chinese agriculture:

First, Chinese agriculture lacks competitiveness not only in the international agricultural market but also in the domestic industrial market. With the rapid development of industry and services, China has significantly reduced the importance of agriculture in the socio-economic landscape by drawing resources from it. The long-standing closed smallholder farming model and the destruction of agricultural ecological balance have led to higher production costs in agriculture, causing agricultural products to lose their comparative advantage in international markets, making them less attractive to foreign investment enterprises.

Second, foreign capital does not have ownership advantages in the field of foreign direct investment in Chinese agriculture. The uniqueness of land ownership in China prevents foreign capital from retaining land ownership rights.

Third, although China's agricultural infrastructure has improved significantly in recent years, areas such as transportation, water and electricity supply, sanitation, and communication remain inadequate. Insufficient investment in agricultural construction has led to aging infrastructure that operates poorly, indirectly weakening the ability to withstand natural risks. On the other hand, rural areas lack corresponding basic information infrastructure, resulting in a contradiction between supply and demand for most agricultural products (Yao, 2006).

Fourth, in terms of the software environment, although China's laws and mechanisms related to foreign investment are gradually being improved, issues such as low market recognition, unfair competition, a shortage of high-level talent, and serious counterfeiting of trademarks still prevent foreign enterprises' products from receiving effective protection.

Therefore, the main factor hindering China's agriculture from effectively utilizing foreign capital is the inadequacy of the domestic agricultural investment environment.

6.2 Unreasonable Distribution of Sources of FDI in China

Currently, the overall scale of foreign direct investment in China is relatively low, which to some extent restricts the development of agricultural modernization in China (Wang et al., 2019). As shown in Fig. 4, foreign enterprises investing in China's agricultural sector mainly come from regions such as Hong Kong and Taiwan. Among them, Hong Kong, Taiwan, and the British Virgin Islands are typical urban economies where agriculture accounts for only a small part of the national economy and is not a leading industry. The characteristics of urban economies determine that these three regions cannot make large-scale investments in Chinese agriculture, resulting in a lower investment scale compared to other industries. Taiwan, Japan, and South Korea follow Hong Kong and the British Virgin Islands in terms of foreign direct investment holdings in agriculture. A significant characteristic of agriculture in these three countries (regions) is the high level of government protection and the sensitivity of capital to agricultural protection policies. Foreign capital, accustomed to having agricultural protection policies, will reduce their investment scale in China's agricultural sector if they cannot the inadequate benefit from agricultural protection policies in China.

From the perspective of the industrial chain, China's utilization of foreign capital is mainly concentrated in the production sector, while there is less focus on the markets for production factors and circulation in agriculture, making it difficult to form an integrated operation of the industrial chain. The reason is that these projects not only require substantial investment but also have long operating cycles and high risks. making it hard to achieve expected returns in the short term, which dampens foreign interest. In addition, the amount of investment by foreign enterprises in China's agricultural sector is generally lower than that in the secondary and tertiary industries, with a very low rate of capital availability. The underlying reason is that during the investment process of joint ventures or cooperation between Chinese and foreign entities, the lack of Chinese capital leads to low enthusiasm from foreign investors, which in turn causes them to prefer to violate agreements rather than make real investments.

there are significant regional Moreover. differences in the utilization of foreign capital in Chinese agriculture. In recent years, the proportion of foreign investment in agriculture in the eastern and central regions has gradually declined. This is mainly due to the accelerated urbanization in these areas and the high costs of agricultural investment, leading foreign capital to be cautious. The western region of China has vast land and abundant resources, but due to the slow development of agricultural modernization and various issues related to the investment environment. investment policies, and infrastructure construction, it has limited capacity to attract foreign capital, resulting in the smallest investment scale. However, in terms of preparedness, the western region shows a strong willingness to attract foreign investment in agriculture. Unfortunately, due to various practical reasons, the results in attracting investment have not been satisfactory, further widening the gap between agriculture in the western and eastern-central regions.

7. IMPROVEMENT PATH

As a major agricultural country, China's traditional extensive economic development model can no longer drive an increase in agricultural product output, and future agricultural development will serve as a lever for the country's economic development level. Therefore, to promote agricultural development and encourage foreign investment in China, it is essential to make every effort to utilize foreign capital to drive the vigorous growth of Chinese agriculture.

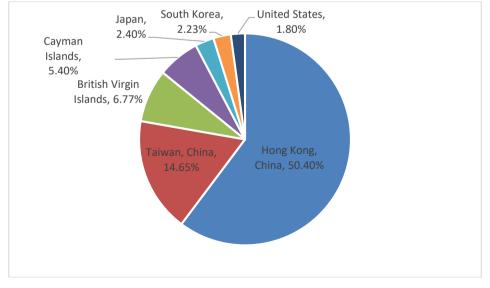


Fig. 4. Main sources of foreign direct investment in agriculture in 2022

7.1 Improve the Environment for FDI in Chinese Agriculture

When foreign enterprises invest in Chinese agriculture, they should prioritize the investment environment. Improving the investment environment is one of the key measures to promote agricultural investment in China. Compared to other Western countries, China's agricultural investment environment still has significant gaps. Therefore, China should strengthen policy and financial support to enhance the investment environment in agriculture.

7.1.1 Improve the hard environment for agricultural investment

The backward agricultural infrastructure rural economic development hinders and reduces the attractiveness of foreign investment in China's agricultural sector. Although the Chinese government has made some improvements to rural infrastructure, public goods in rural areas remain in short supply. Issues such as outdated irrigation facilities. environmental degradation. and poor transportation in villages have become major obstacles to agricultural modernization, greatly diminishing foreign investors' willingness to invest in China. Thus, under this backdrop, it is necessary to further improve rural infrastructure construction and optimize the hard environment for agricultural investment. This requires fully stimulating the vitality of various stakeholders and creating a channel for social participation. By utilizing development funds to guide a series of projects like comprehensive agricultural development, improving the agricultural production environment, strengthening transportation infrastructure, and addressing issues such as air pollution, water pollution, and land degradation, an environment conducive to agricultural project development can be created. Only with good hardware facilities can agricultural production costs be reduced. production conditions improved, and foreign enterprises attracted to invest, thereby creating a healthy and favorable industrial development environment for agriculture.

7.1.2 Improve the soft environment for agricultural investment

First, focus on preferential policies for foreign capital utilization in agriculture, especially

ensuring the sustainability and reliability of these policies. For agricultural projects with advanced and modern management technology experience, tax reductions should be minimized (Jiang & Shi, 2014); for foreign enterprises operating in the wholesale and retail sectors of agricultural products, restrictions can be appropriately relaxed to encourage foreign investment in the agricultural circulation field, thus enhancing the circulation network. Finally, consideration should be given to the differences in economic development levels and development environments agricultural across regions in China, providing a certain of policy support degree to relatively underdeveloped areas, strengthening and agricultural technology and industry cooperation among regions to promote effective complementarity and optimization of innovation resources.

Second, improve the service facilities system for foreign capital utilization in agriculture. First, during the investment process of developed countries in Chinese agriculture, attention should be paid to improving the patent protection system for Chinese agriculture, further strengthening the protection of intellectual achievements such as agricultural trademarks. brands. and technologies. Second, focus on systematically cultivating high-level talents in the agricultural field through various means and building pool of excellent specialized а talents. Subsequently, increase the investment from capital markets in agricultural technology innovation activities, and improve the rural capital system to reduce funding costs and maximize investment efficiency (JIA et al., 2019). Finally, enhance the flexibility, focus, integrity, policies and scientific nature of to ensure the optimal combination of technological innovation resources and effective use of funds.

government Third, improve administrative efficiency. To meet the basic requirements of the government WTO, the Chinese should amend relevant policies and regulations that are incompatible with the World Trade Organization, addressing the loopholes in related laws and regulations. At the same time, it should continuously simplify the approval process for investment projects in Chinese agriculture. improving work quality and efficiency.

7.2 Optimize the Source Structure of FDI in Chinese Agriculture

First, in terms of channels for attracting investment in agriculture. currently, neighboring Asian countries are the main source of investment in Chinese agriculture. investment from Europe and while the United States is relatively low. Therefore, efforts should be increased to attract capital from developed countries in Europe and the United States. By adopting targeted cooperation, investment promotion, and organizing negotiation meetings, foreign investors can be invited to visit China, thereby attracting small and large enterprises from developed countries like Europe to invest, gradually improvina the quality and technological level of foreign capital utilization in Chinese agriculture.

Second, actively guide foreign enterprises to invest in products with a high degree of specialization. For agricultural comprehensive development projects with high technological content and added value, proactive measures such as overseas listing, project financing, and cooperative development should be adopted.

implement differentiated investment Third. overall attraction policies. Given that the economic development level in the eastern region is relatively high, with significant foreign capital inflow and high labor costs, attention should be paid to assessing the quality of foreign investment projects to encourage the inflow of knowledge-intensive enterprises. For the central and western regions, which are vast, rich in agricultural resources, and have low labor costs, corresponding measures should be formulated during the investment promotion showcase the comparative process to advantages of agriculture in these regions and strive to attract investment. For example, continuously optimize and upgrade the industrial structure, improve public infrastructure, enhance the investment environment and policy system, and reduce the risks of foreign investment. Fully utilize the resource characteristics, low investment costs, and less industrial competition in the central and western regions to attract foreign capital, thereby development promoting coordinated of agricultural foreign investment at the regional level. However, this should not be done blindly; when attracting foreign investment, it

should be integrated with favorable conditions such as agricultural resources and labor in the central and western regions to achieve optimal allocation of funds and resources comprehensively.

8. CONCLUSIONS

Through the analysis of the impact of foreign direct investment on China's agricultural economy (Agrawal & Khan, 2011), we find that foreign capital has played a positive role in the Chinese modernization agriculture, of optimization of industrial structure. and technological advancement. Although the scale foreign investment has increased, its of proportion in the agricultural sector remains relatively low, with uneven regional distribution and issues such as an imperfect investment environment and outdated agricultural infrastructure. To fully leverage the driving force of foreign capital for agricultural development, it is necessary to further improve the agricultural investment environment, optimize the structure of foreign capital, and strengthen policy support and guidance (Zhang & Song, 2001), especially in the fields of modern agriculture and green development. By formulating scientifically sound policies, Chinese agriculture is expected to attract more high-quality foreign investment and achieve high-quality, sustainable development.

DISCLAIMER (ARTIFICIAL INTELLIGENCE)

Author(s) hereby declare that NO generative AI technologies such as Large Language Models (ChatGPT, COPILOT, etc.) and text-to-image generators have been used during the writing or editing of this manuscript.

COMPETING INTERESTS

Author has declared that no competing interests exist.

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