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ROLE OF FDIs IN AGRICULTURE SECTOR FOR PROMOTING INDIAN ECONOMY

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ABSTRACT

Agriculture is the backbone of Indian economy and it accounts for almost 14% of India's gross domestic product (GDP). Agriculture is an important sector, which determines growth and sustainability and plays a vital role in the development of India with over 60 percent of the country's population deriving their subsistence from it. Most of the rural population in India depends on agricultural practices for employment and livelihood. Indian economy in agriculture has shown a steady growth in the last two decades. The agriculture industry in India is growing at a great pace and is expected to grow many folds in the near future. After globalization, like all other countries India also allowed FDI in various sectors including agriculture. This paper focuses on role of FDIs in promoting economic growth of India.

KEYWORDS: *Agriculture, FDI, GDP, Indian Economy.*

INTRODUCTION:

FDI refers to capital inflows from abroad that are invested in to enhance the production capacity of the economy. The main governing bodies that define the future role of agriculture in India are the Ministry of Agriculture, the Ministry of Rural Infrastructure and the Planning Commission of India. The latest development in FDI in Indian agriculture sector is that: FDI up to 100% is permitted under the automatic route in activities such as development of seeds, animal husbandry, pisciculture, cultivation of vegetables and mushrooms etc under controlled conditions and services related to agro and allied sectors.

FDI would also bring investment in postharvest infrastructure that would increase the shelf life of produce and minimize food wastage (now as high as 2030%). Moreover, new investment would result in other positive externalities such as better seeds and stricter standards that would increase quality and productivity while lowering costs. The subsequent development of the Indian agriculture sector through FDIs is predicted to have a significant positive impact on the 700 million strong rural populations, living in about 600,000 small villages of India. Rapid investments in technology development, irrigation infrastructure, emphasis on modern agricultural practices and provision of agricultural credit and subsidies are the major factors contributed to agriculture growth. FDI in Indian agriculture sector increase employment opportunities. FDI remains permanent in the host country because of the development in the infrastructures of the host country. Therefore, there exist the long run relationship between level of GDP and foreign capital stock.

FDI inflows in Agricultural Services and Machinery

FDI inflows in the Indian agricultural services and machinery are allowed up to 100 percent and allowed through automatic route in India. The foreign direct investment (FDI) inflows in agricultural services and machinery sector during April 2000 April 2014 stood at US$ 2026.04 million respectively, as per data released by Department of Industrial Policy and Promotion (DIPP).

Table1: Sectorwise Foreign Direct Investment Equity Inflows in India

(During April, 2000 January, 2014)

Name of sector	FDI Inflows(in crores)	FDI inflows (in US$ million)	Percentage share in total investment
Agricultural Services	8283.82	1687.83	0.16
Agricultural Machinery	1665.45	338.21	0.16

Source: Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, Govt. of India.

The overall percentage of such foreign direct inflow in the Indian agricultural services and agriculture machinery is 0.80 and 0.16 of the total quantum of the FDI inflow during the 2000-14. FDI inflows into agricultural machinery of India have resulted in the steady rise of the Indian agriculture industry in recent years.

FDI inflows to fertilizers industry in India

Foreign Direct Investment (FDI) in fertilizers in India is allowed up to 100% under the automatic route in India. The various advantages of FDI inflows into fertilizer industries are growth, quality, improved technology and expansion of fertilizer industry. It is widely believed that these steps will aid in the growth of agriculture infrastructure in the country and will benefit the sector in the long run.

Table 2: Sector Wise Foreign Direct Investment Equity Inflows in India

(During April, 2000 January, 2014)

Name of the sector	FDI Inflows (in crore)	FDI inflows (in US$ million)	Percentage share in total
Fertilisers	1538.09	318.55	0.15

Source: Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, Govt. of India.

FDI INFLOWS TO FOOD PROCESSING INDUSTRIES

Food processing has a vital link with agriculture sector. Government of India gave an estimation of FDI inflows to reach USD 5360.89million by 2014 keeping in view the rising demand amongst the corporate players in the Indian retail industry. 100 per cent of FDI is permitted in almost all the food processing units with the exception of alcohol. Enactment of the Food Safety and Standards Bill, 2005 has introduced a governing body for the food processing sector. Most of the items in food processing sector are exempted from licence agreement, except those that are kept in reserve for the small scale sectors.

Table 3: Sectorwise Foreign Direct Investment Equity Inflows in India
(During April, 2000 January, 2014)

Name of Sector	FDI Inflows (Crores)	FDI Inflows in (US $ million)	Percentage Share in Total Investment
Food Processing Industries	31118.30	5360.89	2.53

Source: Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, Govt. of India.

India has emerged as a major player in the global agriculture market. Indian agriculture exports during 2012-2013 were US$ 41 billion against agriculture imports of US$ 20 billion, with an output of net trade surplus of US$ 21 billion.

In 2012-13, the share of exports of agricultural and processed food products in overall exports rose to 10.6 per cent. Total exports of Indian agricultural and processed food products during April–November 2013 stood at US$ 14,515.10 million as compared to US$ 13,281.47 million during the same period last year, according to data released by the Agricultural and Processed Food Products Export Development Authority (APEDA).

CHANGED PATTERN OF AGRICULTURE

The way in which food is being produced (e.g. the industrialisation of agriculture), distributed (e.g. the globalisation of the food markets), marketed (e.g. the spread of transnational retailers) and consumed (e.g. the increasing amount of processed foods or the globalisation of food cultures) has changed dramatically over the past thirty years. These processes have been accompanied by changing investment patterns in the agri-food sector. First, since the 1980s many countries – mainly under pressure from the International Monetary Fund (IMF) and the World Bank have stopped subsidising the food sector through supported prices, input subsidies or government credits for farmers (Kherallah et al. 2002, Stein, 1992, Swinnen & Maertens, 2007). Second, a worldwide increase of food and land speculation observed in the past ten years (Clapp & Helleiner, 2012, Ouma, 2012). Third, FDI in the agricultural sectors of developing countries have increased dramatically in recent years. These three major developments ignited discussions about whether this "may – or may not – lead to the persistence of food insecurity and poverty in rural communities" (WHO, 2013), and whether investments in the Global South's agricultural sector, might be an opportunity for development (Cotula et al., 2009).

PRIVATE SECTOR INVESTMENT VIA FDI

Performance of Indian economy is dependent upon the growth of agriculture sector. The contribution of agricultural sector to national Gross Domestic Product (GDP) has continued to decline over the years; while that of other sectors, particularly services, has increased. Presently, agriculture contributes 13.9 per cent of India's Gross Domestic Product (GDP) yet; agriculture forms the backbone of the economy, as 52 per cent of India's work force is still engaged in agriculture for its livelihood and is important for food security and inclusive growth.[6] All Countries need investment for their development, especially emerging countries. The two main source of investment are public and private investment, but the amounts required are generally above the capital that is available within the country's boundaries. Therefore, Foreign Direct Investment (FDI) becomes an important financial source for capital projects, vital for Emerging Country's development.FDI in agriculture sector raises investment in agriculture sector of the host country and leads to increase in employment, income and savings. It also provides technological infrastructure, capital and managerial skill into the sector.

Mauritius has maximum FDI inflow i.e. $ 83,730 million which is 35 per cent of total FDI inflow in India. Singapore has 12 per cent share in total FDI inflow. U.K. 9 per cent, Japan 7 per cent, Netherlands and U.S.A. 6 per cent, Cyrus has 3 per cent in share in total FDI inflow in India.

Table4: FDI Inflows in Agriculture Sector *Amount In Rs. Crores (Us $ In Millions)*
***(From* April, 2000-May, 2014)**

Sector	Cumulative inflow	% US$
Food Processing Industries	34,385.16 (5,893.46)	2.64%
Agricultural services	8,415.71 (1,709.53)	0.77%
Rubber goods	8,148.53 (1509.97)	0.68%
Vegetable oil and Vanaspati	2,031.48 (407.16)	0.18%
Agricultural machinery	1,810.81 (362.26)	0.16%
Fertilizers	1,538.09 (318.55)	0.14%
TEA AND COFFEE (PROCESSING & WAREHOUSING COFFEE & RUBBER)	489.53 (107.08)	0.05%

Source: DIPP, Ministry of Commerce & Industry, GOI.

It is clear from the above table that Food processing Industries are attracting highest FDI Rs. 34385.16 crore while agriculture services, rubber goods, vegetable oil and vanaspati, agriculture machinery and fertilizers are attracting Rs. 8415.71 crore, Rs. 8148.53 crore, Rs. 2031.48 crore, Rs. 1810.81 crore and Rs. 1538.09 crore respectively.

GOVERNMENT INITIATIVES

Government announced Agricultural Policy, 2000 for improving Indian agricultural sector with a growth of 4% p.a. and promoting private investment. FDI policy, 2000 permitted 100% FDI in agricultural sector, under the automatic route, subject to certain conditions mentioned in Consolidated FDI Policy, in the following agricultural activities: Floriculture, Horticulture, Apiculture and Cultivation of Vegetables & Mushrooms under controlled conditions; Development and production of Seeds and planting material; Animal Husbandry (including breeding of dogs), Pisciculture, Aquaculture, under controlled conditions; and Services related to agro and allied sectors. 100% FDI is also permitted in tea sector. Besides the above, FDI is not allowed in any other agricultural sector/ activity.

Table5: FDI limits for agricultural sectors

	FDI Cap/ Equity	**Entry Route**
Floriculture, Horticulture, Development of Seeds, Animal Husbandry, Pisciculture, Aquaculture, Cultivation of Vegetables & Mushrooms and services related to agro and allied sectors.	100%	Automatic
Tea sector, including plantation	100%	FIPB

Source: Reserve Bank of India's Reports

Canada is keen to partner with India in agriculture and processing sectors, particularly in pulses and canola. Recently Fiji proposed to enter into the MoU with India in the areas of rice, horticulture, fisheries and animal husbandry. Tafe Motors and Tractors Ltd. (TAFE) has invested around US$ 140 million by way of equity in the US- based AGCO Corporation, a worldwide manufacturer and distributor of agricultural equipment.

Israel based world's seventh largest agrochemical firm ADAMA Agrochemical plans to invest at least US$ 50 million in India over next three years. The Oman India Joint Investment Fund (OIJIF), a joint venture between State Bank of India (SBI) and State General Reserve fund (SGRF), has invested Rs. 95 crore in GSP Crop Science, a Gujarat based Agrochemical Company. In this direction Rs 25000 crore also will be release for Rural Infrastructure Development Bank and Rs. 5300 crore for micro irrigation programme.

Investment in agricultural infrastructure has the potential of minimum wastage especially of perishable fresh foods and vegetables and this will lead to increase the income of the farmers. Agricultural Ministry must also frame strong policies for subsidies and their utilization. We also need to create better domestic agricultural infrastructure and market opportunities to attract foreign investors in this sector. Union govt. should frame policies in this regard with state govt. which should be free from bureaucratic procedure; outdated laws & traditions, corruption and non transparency then this will lead to fair production in economy.

Government should try to develop India as an emerging investment destination to solve all the problems of Indian economy in general and agriculture in particular. It is also said that the government must promote sustainable agriculture development through FDI.

CONCLUSION

The subsequent continuing development of the Indian agriculture sector through FDIs is predicted undertake a significant positive influence on the 700-million strong rural populations, moving into about 600,000 small villages of India. Rapid investments in technology development, irrigation infrastructure, increased exposure of modern agricultural practices and provision of agricultural credit and subsidies are classified as the major factors contributed to agriculture growth. FDI in Indian agriculture sector increase employment opportunities and remains permanent in the host country with the development in the infrastructures from the host country. Therefore, there exist the long term relationship between levels of GDP and foreign authorized shares.

If the entry of FDI is permitting in agriculture retailing, it will ensure adequate flow of capital into rural economy in a manner more likely to promote the welfare coming from all parts of society, particularly farmers and consumers. Though, the concern with farmers can be not imaginary. We already had a bitter example of such entry of foreign trader, therefore tailor-made entry of FDI should be allowed in agriculture retailing. Accomplished by integrating into your likes and dislikes for FDI retailing certain inbuilt safety valves. To make certain the foreign investors complete a genuine contribution towards the development agriculture retailing. Reconstituting the poverty stricken and stagnating rural sphere right into a forward moving and prosperous rural sphere generally is the justifications for introducing FDI in agricultural retailing but the government should executed a special regulatory framework. It will ensure that the retailing giants do make use of predatory pricing or acquire monopolistic tendencies.

As the debate on home and host country's welfare continues, the majority of the empirical studies in food and related sectors concluded that FDI was conducive to economic growth in developing countries, but substituted for trade western world. Within host countries, industries shifted using the reallocation of resources, causing some to grow quicker and others to completely disappear, just like trade liberalization. FDI carries a stronger relation to growth and trade when put together with trade liberalization. However, not many numerous studies have shown addressed the post-profit repatriation scenarios in developing along with developed countries.

Besides studies on competition among multinationals in a host country (a disorder required for welfare gains within a host country), further testing for factors causing FDI and consequences in dynamic settings is essential for better perception of the advantages of globalization through FDI.

Lately, the processed food industries have cultivated (when measured by their contributions to GDP) rapidly in numerous countries, while agriculture is constantly remain as a major employer in developing countries.

Specifically, the result on returns to domestic resources (labor-skilled/unskilled, capital), and resources specific to agriculture should be clearly identified. A continued investigation of the link between multinational activities of these sectors is important so as to understand their role in economic development.

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