

Share of Indian Agriculture in Net Factor Income From Abroad



Economics

KEYWORDS : export, import, net factor income from abroad, residents, national income

Shakti Kumar

Assistant Professor, Department of Economics and R.D., Avadh University, Faizabad, India

ABSTRACT

The agricultural NFI as a percentage of NDPFC increased from 0.39 in 1990-91 to 2.57 in 2011-12. The agricultural NFI as a percentage of NNPFIC increased from 0.39 in 1990-91 to 2.60 in 2011-12. It shows that the share of Indian agriculture in NFI from abroad is increasing over the period. Share of Indian agriculture in net factor income from abroad is negative not because of its contribution in it or negative earnings but of negative Indian NFI. The contribution of agriculture in NFI is positive and much higher than industrial sector.

Introduction

Agriculture shares 51.00 per cent in total employment, 12.28 per cent of national export, 13.98 per cent of NDP at factor cost and 16.74 per cent of national income of India in 2012. It shows that agricultural sector plays an important role in Indian economy. However, if one talks about the net factor of income from abroad (NFI), the important role turns to be backbone. It is the agricultural sector which NFI is always positive but NFI of India is always negative.

Literature review

Export produces incomes which in turn brings savings in the economy (Papanek, 1973). The negative co-efficient of NFI implies an inverse correlation between foreign remittance and domestic savings (Kazmi A.A., 1994). One of the implications of Laursen-Metzler -Harberger Hypothesis is that terms of trade and current account balance are inversely related (Sachs, 1983). The influx of multinationals distorts wage setting behaviour and hence worsens unemployment (Barry and Hannan, 1995). Low corporate tax rate provides incentives for transferring pricing through which firms repatriate their profits which reflects negative net factor income from abroad (Cerra and Soikkeli, 2003). Foreign direct investment (FDI) downsides firms located in volatile sectors and weakens domestic economy (Gunnigle and McGuire, 2001). Net output per employee is much higher in foreign than domestic firms (Walsh, 1996). Funds generated through external borrowing strongly effects savings and investment (Chaudhary and Malik, 2009). Foreign capital inflow is an addition to the resources available to a country and hence it increases domestic expenditure (Weisskopf, 1972). An accessibility of world capital markets and inflow of net investment protects national income from output shocks (Volosovych, 2011).

The above literature reviews do not explain about the share of agriculture in NFI. Therefore, the present paper makes an effort to do so.

Objective

- (1) To determine share of the Indian agriculture in net factor incomes from abroad.
- (2) To find out the reason why the net factor income from abroad of India is negative when the share of agricultural is positive.

Methodology

NFIA has been estimated by adding contributions from three

sectors namely agriculture, industry and services. It consists of (i) net compensation of employees and (ii) net income from property and entrepreneurship (interest, rent, dividend and profit) including reinvested earning of foreign companies. The term net stands for receipts of current income by residents abroad minus disbursement of current income to non-residents in India. The current price estimates of exports are deflated by unit value index of imports and imports by unit value index of exports with base year 2004-05. Time series secondary data has been taken here to find out the objectives.

Analysis

Net factor income from abroad is a part of the national income (NNP_{fc}) which is the sum total of NDP_{fc} and NFIA. This net domestic product includes production value of three sectors namely agriculture, industry and services. All these three sectors produce and export qualitative and quantitative products in the international market. The net balance of trade is positive for agricultural sector but negative for industry and services sectors. The negative balance of trade overcomes the positive balance of trade. This is the reason why the balance of trade of India is negative. When overall NFI is estimated, this negative BOT again overcomes the positive remittance from abroad other than trade. This is the reason why NFI from abroad of India is negative. Both the table-1 and figure-1 clearly show that negative outflow of factor incomes overcome the positive inflow factor incomes from abroad. There are various reasons of it-(a) industry sector imports more than its exports (b) India has liberalized, privatized and globalised the economy. (c) Export and import liberalization to attract FDI has caused outflow of factor incomes from India.

The percentage share of agriculture in Indian NFI from abroad increased from (-) 28.52 per cent in 1990-91 to (-) 228.30 per cent in 2011-12. It is negative because NFI of India is negative as shown as shown as in table-3.

Table-3 clearly infers that NFIA of Indian agriculture is increasing over the period. It increased from Rs. 48.06 Bn. in 1990-91 to Rs. 1183.33 Bn in 2011-12. There are various reasons of it. The demand for Indian agricultural products has risen over the period. India has achieved food sufficiency. India is able to produce surplus agricultural products to be exported. Per unit cost of production of agriculture in domestic Indian market is less than that of abroad due to cheap labour availability and its productivity along with improvement in technology.

Table-1: Net Factor Income of India from abroad as a percentage of NDPFC and NNPFIC

Year	Agriculture		Industry		Services		Total	
	% of NDP _{FC}	% of NNPF _{FC}	% of NDP _{FC}	% of NNPF _{FC}	% of NDP _{FC}	% of NNPF _{FC}	% of NDP _{FC}	% of NNPF _{FC}
1990-91	0.39	0.39	-0.54	-0.55	-1.84	-1.86	-1.38	-1.40
1991-92	0.51	0.52	-0.06	-0.06	-1.52	-1.55	-1.43	-1.45
1992-93	0.47	0.48	-0.38	-0.39	-2.27	-2.30	-1.37	-1.39
1993-94	0.74	0.75	0.10	0.10	-1.07	-1.08	-1.18	-1.19

1994-95	0.49	0.50	-0.60	-0.60	-1.67	-1.69	-1.12	-1.14
1995-96	0.92	0.93	-0.41	-0.42	-1.65	-1.67	-1.12	-1.14
1998-97	1.03	1.04	-0.54	-0.55	-0.98	-0.99	-1.00	-1.01
1997-98	0.91	0.91	-0.93	-0.93	0.20	0.20	-0.78	-0.79
1998-99	0.58	0.58	-1.51	-1.52	-0.43	-0.43	-0.78	-0.78
1999-2000	0.45	0.46	-0.78	-0.78	-2.10	-2.12	-0.81	-0.81
2000-01	0.78	0.79	0.45	0.46	-1.63	-1.65	-1.13	-1.14
2001-02	0.60	0.61	-0.13	-0.13	-1.76	-1.77	-0.96	-0.97
2002-03	0.74	0.74	0.02	0.023	-0.62	-0.63	-0.82	-0.83
2003-04	0.61	0.62	-0.79	-0.80	1.27	1.28	-0.83	-0.83
2004-05	1.46	1.47	-3.44	-3.47	2.74	2.77	-0.84	-0.85
2005-06	0.95	0.96	-4.23	-4.27	3.84	3.87	-0.85	-0.86
2006-07	1.18	1.19	-5.47	-5.52	5.45	5.50	-0.92	-0.93
2007-08	1.55	1.56	-7.40	-7.45	8.36	8.40	-0.49	-0.49
2008-09	1.49	1.50	-9.82	-9.89	8.02	8.08	-0.68	-0.69
2009-2010	0.96	0.96	-9.02	-9.08	8.61	8.67	-0.69	-0.69
2010-11	1.55	1.57	-10.14	-10.26	11.01	11.15	-1.22	-1.23
2011-12	2.57	2.60	-14.06	-14.22	10.36	10.48	-1.12	-1.13

Source: (1) DGCI&S, Ministry of Commerce, Kolkata
 (2) RBI, Government of India
 (3) Economic Survey

Table-2: Percentage share of Agriculture in Indian NFI from abroad

Year	Agriculture	Industry	Services
1990-91	-28.52	39.27	133.31
1995-96	-82.09	36.84	146.67
2000-01	-69.62	-40.20	143.88
2011-12	-228.30	1248.50	-920.20

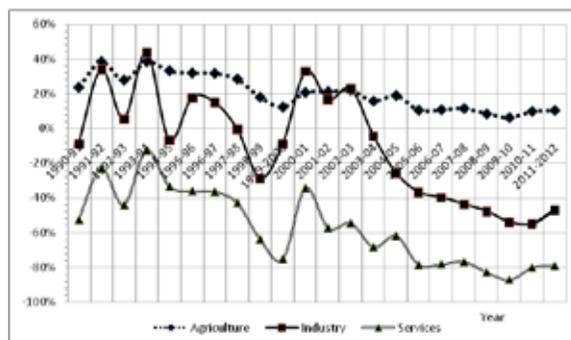
Table-3: Net Factor Income of India from abroad (Rs. Billion)

year	Net Factor Income from abroad (NFIA)			
	Agriculture (a)	Industry (b)	Services (c)	NFIA (a+b+c)
1990-91	48.06	-66.18	-224.62	-168.49
1991-92	63.59	-7.46	-188.1	-176.3
1992-93	61.64	-49.84	-294.74	-178.12
1993-94	102.59	14.03	-147.33	-162.05
1994-95	72.85	-87.57	-244.25	-164.3
1995-96	145.07	-65.12	-259.19	-176.72
1998-97	175.48	-93.01	-166.07	-169.49
1997-98	160.48	-163.9	35.72	-138.24
1998-99	109.44	-283.4	-81.73	-146.87
1999-2000	92.46	-157.6	-425.14	-163.75
2000-01	165.71	95.68	-342.45	-238
2001-02	134.72	-30.27	-389.5	-213.71
2002-03	170.45	5.34	-144.67	-189.6
2003-04	152.93	-197.86	318.04	-206.93
2004-05	387.9	-912.87	729.16	-223.75
2005-06	277.17	-1230.1	1115.82	-248.96
2006-07	376.49	-1741.3	1733.34	-295.15
2007-08	539.73	-2568.2	2902.38	-171.79

2008-09	550.94	-3625.1	2961.11	-253.84
2009-2010	383.29	-3598.2	3433.64	-276.64
2010-11	673.01	-4383.3	4759.77	-527.76
2011-12	1183.33	-6470.9	4769.25	-518.28

Source: (1) DGCI&S, Ministry of Commerce, Kolkata
 (2) RBI, Government of India
 (3) Economic Survey

Figure-1: Percentage Share of Sectoral NFI from Abroad in National Income of India



Conclusion

Share of Indian agriculture in net factor income from abroad is negative not because of its contribution in it or negative earnings but of negative Indian NFI. The contribution of agriculture in NFI is positive and much higher than industrial sector. The agricultural NFI as a percentage of NDP_{pc} increased from **0.39** in 1990-91 to 2.57 in 2011-12. The agricultural NFI as a percentage of $NNPFC$ increased from **0.39** in 1990-91 to 2.60 in 2011-12. It shows that the share of Indian agriculture in NFI from abroad is increasing over the period.

REFERENCE

Barry F. and Hannan A. (1995), *The Economic and Social Review*, Vol. 27, No. 1, pp. 21-32 | Cerra V. and Soikkeli J. (2003), *The Economic and Social Review*, Vol. 34, No.2, pp. 173-193 | Chaudhary I.S. and Malik S. (2009), *J. of Quality and Tech. Management*, Vol. 5, Issue 2, pp. 101-115 | Gunnigle P. and Mcguire D. (2001), *The Economic and Social Review*, Vol. 32, No.1, pp.43-67 | Kazmi A.A. (1994), *The Pakistan Development Review*, Vol.33, No.4, p-21 | Papanek (1973), *The Journal of Political Economy*, Vol. 81, No. 1, pp. 120-130 | Sachs (1983), *Brooking Papers on Economic Activity*, Vol.1, PP. 201-268 | Volosovych V. (2011), *Journal of Applied Economics*, Vol. 45, No. 11, p-1 | Walsh B. (2000), *Oxford Economic Papers*, Vol. 52, PP. 119-145 | Weisskopf T.E. (1972), *Journal of International Economics*, Vol. 2, Issue -1, pp. 25-38 |