Research Paper Economics

Foreign Direct Investment (FDI) & Agriculture Sector in India

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ABSTRACT

Agriculture plays an important role in economic development of any nation including India. 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. To improve agriculture productivity and streamline it with manufacturing and services sector, there is a strong need to adopt many measures, out of which, promote FDI inflow in agriculture sector in Indian economy. 100 per cent FDI is allowed in agriculture and allied service under controlled conditions. In the above regard, present paper is an attempt to understand the role of FDI in agricultural sector & in overall progress of the economy.

KEYWORDS FDI, Agriculture, GDP & Indian Economy

INTRODUCTION

Agriculture plays an important role in economic development of any nation including India. 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. 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. To improve agriculture productivity and streamline it with manufacturing and services sector, there is a strong need to promote FDI inflow in agriculture sector in Indian economy. 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. Keeping in above backdrop, the present study is a humble attempt to analyze the foreign direct investment and agriculture in India.

DATA SOURCES AND OBJECTIVES

The present study is of analytical in nature and exclusively based on secondary data which has been collected from the various issues of Handbook of Statistics on the Indian Economy, Reserve Bank of India (RBI) Bulletin published by Reserve Bank of India and Economic Survey (various issues), Department of industrial policy & promotion (DIPP) etc. The available data has been processed and presented in the form of different suitable tables and figures. The main objective of present study is to analyze the FDI and agriculture sector in Indian economy and also tries to draw policy implication that whether FDI should boon or ban in this sector.

LITERATURE REVIEW

FDI is considered as an important tool for emerging economies like India, as it is expected to bring latest technology and enhance production capabilities of the economy. There is a no dearth of literature on the present issue. To justify the need of present study, following literature is reviewed:

Burfisher, Robinson, and Thierfelder (1992) analyzed the impact of FDI in Mexico and they revealed that agricultural production has increased by 8% and this further increase the demand for production. FDI approach through proper mechanism in the rural areas can reduce the poverty in rural areas (Aaron, 1999; Bannister, 2001); FDI has long term impact on development of a country not only a source of capital but also enhance competition through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities (Deutsche Bundesbank, 2003); FDI has positive impact on productivity especially to smallholder farmers who are linked in integrated producer schemes (Msuya & Elibariki, 2007);

According to UNCTAD (2009) FDI has potential to generate employment, raise productivity, transfer skill and technology, enhance export and continue to the long term economic development of the world's developing countries. Hooda (2011) through her study of FDI and Indian Economy concluded that that FDI enhance the financial position of India by providing a sound base for economic growth and development of the country.

It is clear from above discussion that, FDI can play an important role in promoting economic growth, raising a country's technological level, and creating new employment in developing countries.

PRESENT STATUS OF FOREIGN DIRECT INVESTMENT IN INDIA

Economic liberalization process was introduced under Structural Adjustment Programme (SAP) with the support of IMF and the World Bank in India. This culminated into a series of economic reforms in 1991 along with a host of industrial policy reforms. New Industrial Policy (NIP) 1991 recognized the role of FDI in the process of industrial development in India in terms of bringing greater competitiveness and efficiency and also modernization, technological up gradation, creation a sound base for export promotion and above all integrating India with rest of the world. Highlights of NIP of 1991 are such

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as: Abolition of industrial licensing system except for 18 industries, Ceiling of 40 per cent foreign equity under FERA was done away etc. Besides, in August 1999 Government of India set up Foreign Investment Implementation Authority (FIIA) within the ministry of industry to facilitate quick translation of FDI approvals. FDI inflow in India with growth rate since 1991 has been shown in following table 1.

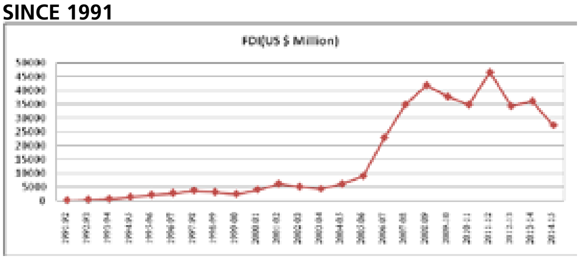
TABLE 1: FOREIGN DIRECT INVESTMENT INFLOW IN INDIA SINCE 1991

Year	FDI Inflow (US $ Million)
1991-92	165
1992-93	393
1993-94	654
1994-95	1374
1995-96	2141
1996-97	2770
1997-98	3682
1998-99	3082
1999-00	2439
2000-01	4029
2001-02	6130
2002-03	5035
2003-04	4322
2004-05	6051
2005-06	8961
2006-07	22826
2007-08	34843
2008-09	41873
2009-10	37745
2010-11	34847
2011-12	46556
2012-13	34298
2013-14	36049
2014-15(April-Nov)	27401
Linear Growth Rate (LGR)	13.03

Source: Economic Survey, GOI, & SIA Newsletter (various FDI fact sheets).

It is clear from table that, in 1991 there is $165 million FDI inflow which increases to $27401 million in 2014-15. Percentage growth trend of FDI shows a positive response for most of the years except that 1998-99,1999-2000, 2002-03, 2003-04, 2009-10, 2010-11 and 2012-13. The Linear Growth Rate (LGR) of actual FDI inflow from 1991 to 2014 is 13.03 per cent. The same can be represented with the following graph:

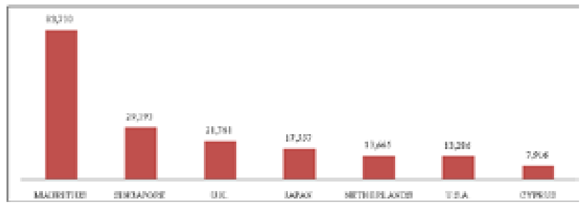
FIGURE 1: FOREIGN DIRECT INVESTMENT INFLOW IN INDIA SINCE 1991



Source: Economic Survey, GOI, & SIA Newsletter (various FDI fact sheets)

Almost all the leading investing countries have responded positively in response to liberalization policies. Mauritius is a major source of FDI inflows because of its "tax haven" status. Double taxation avoidance agreement that India entered with Mauritius had become an additional benefits in the form of reducing tax liability. Country wise FDI inflow in India since 2000 is shown in following figure 2

FIGURE 2: COUNTRYWISE FDI INFLOW IN INDIA (APRIL 2000 TO NOV 2014) (US $ MILLION)



Source: RBI Bulletin November 2014

Figure-2 illustrates that 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.

TABLE 2 FDI INFLOWS IN AGRICULTURE SECTOR (From April, 2000-May, 2014)
Amount in Rs. Crores ***(US $ in millions)***

SECTOR	CUMULATIVE INFLOW	% (US $)
FOOD PROCESSING INDUSTRIES	34,385.16 (5,893.46)	2.64%
AGRICULTURE SERVICES	8,415.71 (1,709.53)	0.77%
RUBBER GOODS	8,148.53 (1509.97)	0.68%
VEGETABLE OILS 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 (from table 2).

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 (DIPP circular, 2014).

FDI LIMITS FOR AGRICULTURAL SECTORS		
Floriculture, Horticulture, Development of Seeds, Animal Husbandry, Pisciculture, Aquaculture, Cultivation of Vegetables & Mushrooms and services related to agro and allied sectors.	FDI Cap/ Equity	Entry Route
	100%	Automatic
Tea sector, including plantation	100%	FIPB
(FDI is not allowed in any other agricultural sector/activity)		

Source: Reserve Bank of India's Report's

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 (Union budget 2015-16).

CONCLUSION WITH POLICY IMPLICATIONS

In concluding words, Foreign Direct Investment (FDI) Policy in Agriculture aims at attracting investment in technology, machinery, equipments, seeds/ planting material, warehousing and cold storages and other infrastructure logistics. It complements public and private investments necessary to bring knowledge, technologies and services to farmers. Hundred percent FDI has been allowed in development and production of seeds and planting material; floriculture, horticulture and cultivation of vegetables and mushrooms under controlled conditions; animal husbandry. 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 beaurocratical procedure; outdated laws & traditions, corruption and non transparency then this will lead to fair production in economy. Proper attention should be given to all allied activities if we want faster, sustainable and more inclusive growth in agriculture. Last but not least, government must pay attention to attract FDI to improve the health of different sectors of Indian economy in general and agriculture in particular. 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.

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