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# An Effect of Foreign Direct Investment (FDI) on Agriculture: A Review

**Maulik C. Prajapati and Rasik I. Prajapati**

***ABSTRACT:*** *The economy of any country can be classified into three major categories, Agriculture sector, Industrial sector and Service sector. In developing countries like India, agriculture sector play very vital role. Agriculture sector provides basic inputs to all other industries so a continuous development of this sector from all dimensions is basic requirement. During different five year planning, the government of India has focused on this sector. But today in the age of competitive environment and information technology and for technology transfer the Foreign Direct Investment (FDI) has become a weapon to survive. This research focus on effect of FDI in agriculture in India.*

***Key Words:*** *Agriculture, FDI, Farmers, Information Technology.*

## INTRODUCTION

The Indian agriculture sector accounts for 18 per cent of India's gross domestic product (GDP) and employs just a little less than 50 per cent of the country's workforce. This sector has made considerable progress in the last few decades with its large resources of land, water and sunshine. India is presently the world's largest producer of pulses and the second largest producer of rice and wheat.

Agriculture is the main resource of livelihood/ occupation for over 75 per cent of the rural population in India. Although, it employs about 52 per cent of the labor force, it contributes to only 14.4 per cent of GDP and 10.23 per cent of all exports.

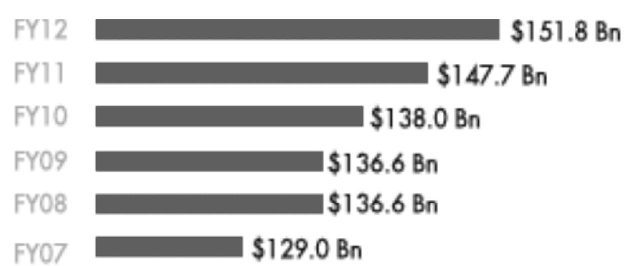
In 2012, the Government of India framed some major liberalization policies to support and encourage this sector. 100 per cent foreign direct investment (FDI) allowed through the automatic route covering Horticulture, Floriculture, development of seeds, Animal Husbandry est. and Services related to Agro-Buisson and Agriculture allied sectors.

The country is also the largest producer, consumer and exporter of spices and spice products in the world and overall in farm and agriculture outputs, it is ranked second. From canned, dairy, processed, frozen food to fisheries, meat, poultry, and food grains, the Indian agro industry has plenty of areas to choose for business.

The Department of Agriculture and Cooperation under the Ministry of Agriculture is the nodal organisation responsible for the development of the agriculture sector in India. Under it, several other bodies such as the National Dairy Development Board (NDDB) work for the development of the other allied agricultural sectors.

## GROWTH

GDP of agriculture and allied sectors in India has been growing at a compound annual growth rate (CAGR) of 3.3 per cent.




## MARKET SIZE

The Indian agricultural services and the agricultural machinery sectors have cumulatively attracted foreign direct investment (FDI) equity inflows to the tune of US$ 365.79 million in the period April 2000-September 2014, according to the Department of

* Assistant Professor, V. M. Patel College of Management Studies, Ganpat University, *E-mail: maulik.prajapati@ganpatuniversity.ac.in*
** Assistant Professor, Smt. S. S. Patel Nootan Science and Commerce College, *E-mail: rasikofpaliad@yahoo.com*

Industrial Policy and Promotion (DIPP). In 2013-14 India achieved a record food grain production of 264 million tonnes (MT), beating the previous year's (2012-13) 257 MT, according to data provided by Department of Economics and Statistics (DES). Also, agricultural profitability has increased over the last decade with record increases in MSPs (minimum support prices) for agricultural produce for all covered crops. India is the second largest producer of sugar in the world and the government has aimed to increase the exports from 1.3 MT in 2013 to an average of 2 MT in 2014 and 2015.

Spice exports from India are expected to reach US$ 3 billion by 2016-17, on the back of creative marketing strategies, innovative packaging, strength in quality and a strong distribution network. The Indian spices market is pegged at Rs 40,000 crore (US$ 6.46 billion) annually, of which the branded segment accounts for 15 per cent. India is the largest producer of milk since 1998 and accounts for about 17 per cent of the world's milk production. The average growth in milk production in the country in the last decade was 4.2 per cent as against the world average of 2.2 per cent, indicating a healthy trend.

The procurement target for rice during Kharif Marketing Season (KMS) 2014-15 has been finalised as 30.05 million tonnes (MT).

## INVESTMENTS

Prompted by the Indian government's initiatives, there has been various investments in the Indian agricultural sector. The major investments and developments in agriculture in the recent past are as follows:

- Metahelix Life Sciences has launched a new variety of maize hybrid seeds for improved productivity. The new hybrid MM 2100 has plant structure with upright leaves that allows higher growth and the cob size does not get reduced due to less gap between plants.
- The International Crops Research Institute for Semi-Arid Tropics (ICRISAT) and Ramoji Film City (RFC) have signed a MoA (Memorandum of Agreement) on Sustainable Management of Water Resources and Sustainable Agriculture Development through the establishment of an Agriculture Theme Park at RFC.
- Tata Global Beverages (TGB) has initiated research and development (R&D) under Project Sustainable Plant Protection Formulation (S-PPF) to evaluate the viability of biological or non-pesticidal methods for plant protection of tea crops. The project is a collaborative effort between TGB, Rallis and Tata Chemicals.
- ICRISAT plans to invest US$ 5 million in upgrading research infrastructure in Africa. The funds will also be used for building scientific skills in sub-Saharan Africa.
- The Agricultural and Processed Food Products Export Development Authority (APEDA) has signed a Memorandum of Understanding with Maharashtra State Warehousing Corporation (MSWC) for setting up of infrastructure for cold storage at Gultekdi, the wholesale market yard in Pune. The proposed project involves facilities for cold storage, pre-cooling and blast freezing.

## TREND OF FDI IN INDIA

FDI has been shown to play an important role in promoting economic growth, raising a country's technological level, and creating new employment in developing countries It has also been shown that FDI works as a means of integrating developing countries into the global market place and increasing the capital available for investment, thus leading to increased economic growth needed to reduce poverty and raise living standards. Table 1 shows the FDI inflow and FDI as percentage of Total GDP & Agriculture GDP in India from the year 2000-01 to 2011-2012 (post liberalization period). The data on FDI inflows into the country shows that foreign investors have shown a keen interest in the Indian economy ever since it has been liberalized.

An increasing trend of Net FDI flows can be observed since 2000-01 with the peak of Net FDI flows being reached in 2008-09 (**Table 1**). Due to negative Net Portfolio investment total FDI was very less. In Growth rate of FDI also was negative and FDI as % to GDP also less than one. The highest growth rate of FDI inflow is in the year 2003-04 i.e., 212.7 percent. The table also found that FDI as a percentage of totals GDP& Agricultural GDP was highest in the year of 2007-08. Technological up gradation, access to global managerial skills and practices, optimal utilization of human and natural resources, making Indian industry internationally competitive, opening up export markets, providing backward forward linkages and access to international quality goods and services the

**Table 1**
**Trend of Foreign Direct Investment and Percentage Share in Agriculture & Allied GDP and All India GDP in India during 2000-01 to 2011-12 (' Billion)**

| *Year* | *Direct Investment to India* | *Net Foreign Direct Investment* | *Net Portfolio Investment* | *Total FDI* | *Growth Rate of Total FDI* | *Total FDI as a % of Ag GDP* | *Total FDI as a % of Total GDP* |
|---|---|---|---|---|---|---|---|
| 2000-01 | 184 | 149 | 118 | 267 | | 5.1 | 1.1 |
| 2001-02 | 292 | 226 | 93 | 319 | 19.4 | 5.8 | 1.3 |
| 2002-03 | 244 | 156 | 45 | 201 | -37 | 3.9 | 0.8 |
| 2003-04 | 198 | 109 | 519 | 628 | 212.7 | 11.1 | 2.3 |
| 2004-05 | 269 | 167 | 413 | 581 | -7.6 | 10.3 | 2 |
| 2005-06 | 395 | 134 | 554 | 688 | 18.5 | 11.6 | 2.1 |
| 2006-07 | 1027 | 349 | 319 | 668 | -2.9 | 10.8 | 1.9 |
| 2007-08 | 1394 | 638 | 1108 | 1744 | 161.1 | 26.6 | 4.5 |
| 2008-09 | 1906 | 1001 | -650 | 351 | -79.9 | 5.4 | 0.8 |
| 2009-10 | 1578 | 860 | 154 | 1014 | 188.9 | 15.7 | 2.2 |
| 20010-11 | 1181 | 429 | 1394 | 1823 | 79.8 | 25.7 | 3.7 |
| 2011-12 | 1550 | 1032 | 856 | 1888 | 3.6 | 25.9 | 3.6 |

*Note:* GDP as constant price, 2004-05 bases.
*Source:* Handbook of Statistics on Indian Economy, RBI, 2012

Indian Government has used many steps to attract more FDI.

## FDI INFLOWS IN DIFFERENT AGRICULTURE SECTOR

### (1) FDI Inflows to food processing industries

Food processing industry is a predominant segment in the Food Industry in India and accounts for 32 percent share in the industry. The food processing industry comprise of 2 percent of fruits and vegetables and 15 percent of processed milk. Important initiatives by the Indian government have led to significant growth in FDI Inflows to Food Processing Industries. While FDI Inflows to Food Processing Industries are estimated to reach USD 325.93 million by 2009, a target of USD 25.07 billion worth of FDI Inflows to Food Processing Industries has been set to be achieved by 2015.

The food processing industry contributes to 6.3 percent of the Gross Domestic product of India, 19 percent to the Indian industry, and 13 percent to the export production. The export production in food processing sector has increased from USD 6.98 billion in 2002-03 to USD 20.51 billion in 2006-07, accounting for a phenomenal rise of 193.83 percent. The government of India has set a target of USD 25.07 billion of FDI Inflows to Food Processing Industries to be achieved by 2015 which will increase India's global food trade from 1.6 percent to 3 percent along with a rise in perishable processed food items from 6 percent to 20 percent. The food processing industry is expected to witness a growth of 10 percent in the recent years to come.

Government of India gave an estimation of Foreign Direct Investments (FDI) Inflows to reach USD 325.93 million by 2009 keeping in view the rising demand among the corporate players in Indian retail industry

- A number of active measures have been taken up by the government to ameliorate the food processing units in terms infrastructure, human resource, and research and development
- 100 percent 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.
- This legislation has also allowed a 100 percent tax deduction on profits for five years and 25 percent for the next five years especially to the upcoming agro-processing industries.
- Most of the items in food processing sector are exempted from license agreement excepting those which are kept in reserve for the small-scale sectors.

### (2) FDI Inflows to Agriculture Services

The Ministry of Agriculture, the Ministry of Rural Infrastructure, and the Planning Commission of India are the main governing bodies that define the future role of agriculture in India and it aims at developing agricultural sector of India. No FDI / NRI / OCB are allowed in the Indian Agriculture sector. The FDI Inflows to Agriculture Services are allowed up to

100% and allowed through the automatic route covering horticulture, floriculture, development of seeds, animal husbandry, pisciculture, aqua culture, cultivation of vegetables, mushroom and services related to agro and allied sectors. Only in Tea sector, 100% FDI is allowed, including, plantations of tea. This requires Government of India approvals. Further, it requires compulsory divestment of 26% equity in favor of the Indian partner or Indian public within a maximum period of five years. This also requires approval from the concerned state government in case of change in use of land for such activities. And this holds true for any fresh investments in the above-mentioned sector. FDI inflows to agriculture services also facilitated growth of other allied areas like Irrigation, Roads, Housing, Water Supply, Electrification, and Telecommunication Connectivity.

### (3) FDI Inflows to Agricultural Machinery

Important aspects of the agrarian sector and rural sector in India that have a positive impact on FDI Inflows to Agricultural Machinery. 100% foreign direct investment (FDI) allowed through the automatic route covering horticulture, floriculture, development of seeds, animal husbandry, pisciculture, aqua culture, cultivation of vegetables, mushroom and services related to agriculture and sectors associated with it.

The present policy with regard to FDI in agriculture and plantation is as follows:

(i) FDI up to 100% is permitted under the automatic route in the under mentioned activities viz., floriculture, horticulture, development of seeds, animal husbandry, pisciculture, aquaculture and cultivation of vegetables and mushrooms, under controlled conditions and services related to agro and allied sectors.

(ii) FDI up to 100% with prior government approval is permitted in tea plantation subject to the conditions of divestment of 26% equity of the company in favour of an Indian partner / Indian public within a period of five years; and prior approval of the state government concerned in case of any future land use change.

(iii) Besides the above two, FDI is not allowed in any other agricultural sector / activity.

(iv) The government has announced 100 per cent Foreign Direct Investment (FDI) in the agriculture sector including seeds, plantation, horticulture and cultivation of vegetables. The Department of Industrial Policy and Promotion (DIPP).According to the circular by DIPP animal husbandry pisciculture, aquaculture under controlled conditions and services related to agro and allied sectors have also been provided with 100 per cent FDI along with the tea sector.

## GOVERNMENT INITIATIVES

The Government of India has adopted and implemented several initiatives in the past few months. Some of the recent major initiatives are as follows:

- The Ministry of Food Processing Industries has taken some new initiatives to develop the food processing sector, which will help to enhance the incomes of farmers and export of agro and processed foods, among others. It also includes the opening of Mega Food Parks and reduction in excise duties for Food Processing machinery.
- The Government of Telangana has allocated Rs 4,250 crore (US$ 687.38 million) for the first phase of farm loan waiver scheme. The scheme is expected to benefit 3.6 million farmers who had taken loans of Rs 100,000 (US$ 1,617.37) or below before March 31, 2014.
- The Government of India plans to launch a new insurance scheme to protect farmers and their incomes against production and price risks. The new insurance scheme is expected to encourage farmers towards crop diversification.
- The Ministry of Agriculture, Government of India, has signed a Memoranda of Understanding (MoU) with 52 countries to provide better agricultural facilities for cooperation in the field of agriculture and allied sectors.
- India and Bhutan plans to strengthen strategic cooperation in the field of agriculture and allied sectors.
- The Government of India plans to invest Rs 50,000 crore (US$ 8.08 billion) to revive four fertilizer plants and set up two new plants to produce farm nutrients. In addition, the government is also in talks with the Government of Iran to set up a 1.2 million tons per annum (MTPA) urea plant in Iran

on the lines of India's joint venture (JV) with Oman.

## CONCLUSION

The government's liberal FDI policies have opened the doors for several foreign companies to set up operations in India. Also, there is scope for the use of genetically modified crops to increase the yield in farms. The 12th Five-Year Plan's estimates of expanding the storage capacity to 35 MT and the target of achieving an overall growth of four per cent will help in improving the growth of the agriculture sector.

Furthermore, Dairy Vision 2025 has been planned to take stock of the current situation across the dairy value chain and evolve strategies for increasing productivity and profitability of farmers.

FDI plays a significant role in increasing productivity by offsetting the investment and technological gap. The FDI Inflows to Agriculture Services are allowed up to 100% and allowed through the automatic route covering horticulture, floriculture, development of seeds, animal husbandry, aqua culture, cultivation of vegetables, mushroom and services related to agro and allied sectors.

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