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ORIGINAL ARTICLE

IMPACT OF FDI ON INDIAN AGRICULTURE SECTOR – A STUDY

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Abstract:

India is principally an agricultural country. Agriculture, with its allied sectors, is unquestionably the largest livelihood provider in India. Most of the industries also depend upon the sector for their raw materials. Steady 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. Indian agriculture has undergone rapid transformation in the past two decades. The policy of globalization and liberalization has opened up new avenues for agricultural modernization. This has not only leaded to commercialization and diversification, but also triggered various technological and institutional innovations owing to investments from corporate entities.

KEYWORDS:

Agriculture , raw materials , technology development , policy of globalization .

INTRODUCTION

From a net importing country, India is today consistently producing 250 million tones (MT) of food grains, 100 MT of rice, 90 MT of wheat, 35 million bales of cotton, and more than 18 MT of pulses. The growth is facilitated mainly by Krishi Vigyan Kendras (KVK) system which is spread across the country. Department of Agriculture and Cooperation under the Ministry of Agriculture is the nodal organization responsible for development of the agriculture sector in India. The organization is responsible for formulation and implementation of national policies and programmes aimed at achieving rapid agricultural growth through optimum utilization of land, water, soil and plant resources of the country.

The Prime Minister's Economic Advisory Council (PMEAC) has estimated farm sector growth for current fiscal at 4.8 per cent, more than double from last year's 1.9 per cent. India has emerged as a major player in the global agriculture market. In the last five years, the country's agriculture exports have tripled from around Rs 80,000 crore (US$ 12.75 billion) to Rs 2.32 trillion (US$ 33.99 billion).

Keeping in view the urgent need of investment for improve the technological advancements in Indian agriculture for increasing the productivity of agricultural products, India allows the 100 per cent FDI in agriculture sector. In this backdrop we propose the study on "Impact of FDI in Indian Agriculture Sector – A Study". The main objective of the study is to examine the impact of FDI in agriculture on Indian Economy.

Overview of FDI

An investment made by a company or entity based in one country, into a company or entity based in another country. Foreign Direct Investment differs substantially from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange. Entities

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making direct investments typically have a significant degree of influence and control over the company into which the investment is made. Open economies with skilled workforces and good growth prospects tend to attract larger amounts of foreign direct investment than closed, highly regulated economies.

The investing company may make its overseas investment in a number of ways - either by setting up a subsidiary or associate company in the foreign country, by acquiring shares of an overseas company, or through a merger or joint venture. The accepted threshold for a foreign direct investment relationship, as defined by the OECD, is 10%. That is, the foreign investor must own at least 10% or more of the voting stock or ordinary shares of the investee company. An example of foreign direct investment would be an American company taking a majority stake in a company in China. Another example would be a Canadian company setting up a joint venture to develop a mineral deposit in Chile.

Greenfield investments are the primary target of a host nation's promotional efforts because they create new production capacity and jobs, transfer technology and know-how, and can lead to linkages to the global marketplace. However, it often does this by crowding out local industry; multinationals are able to produce goods more cheaply (because of advanced technology and efficient processes) and uses up resources (labor, intermediate goods, etc). Another downside of green field investment is that profits from production do not feed back into the local economy, but instead to the multinational's home economy. This is in contrast to local industries whose profits flow back into the domestic economy to promote growth.

Mergers and Acquisition occur when a transfer of existing assets from local firms to foreign firms takes place; this is the primary type of FDI. Cross-border mergers occur when the assets and operation of firms from different countries are combined to establish a new legal entity. Cross-border acquisitions occur when the control of assets and operations is transferred from a local to a foreign company, with the local company becoming an affiliate of the foreign company. Unlike green field investment, acquisitions provide no long term benefits to the local economy-- even in most deals the owners of the local firm are paid in stock from the acquiring firm, meaning that the money from the sale could never reach the local economy.

There are three types of FDI available which are horizontal, vertical and conglomerate. Horizontal Foreign Direct Investment is investment in the same industry abroad as a firm operates in at home for example, Toyota assembling cars in both Japan and the UK. Vertical Foreign Direct Investment is when different stages of activities are added abroad which are two forms:

Backward vertical FDI: where an industry abroad provides inputs for a firm's domestic production process for example, Toyota acquiring a car distributorship in America.

Forward vertical FDI: in which an industry abroad sells the outputs of a firm's domestic production processes for example, Toyota acquiring a tyre manufacturer or a rubber plantation.

Conglomerate is where an unrelated business is added abroad. This is the most unusual form of FDI as it involves attempting to overcome two barriers simultaneously - entering a foreign country and a new industry. This leads to the analytical solution that internationalization and diversification are often alternative strategies, not complements.

FDI in Different Sectors in India

FDI is permitted up to some extent in the below mentioned Sectors:

Sector	FDI Cap/ Equity	Entry Route	Other Conditions
A. Agriculture			
1. Floriculture, Horticulture, Development of Seeds, Animal Husbandry, Pisciculture, Aquaculture, Cultivation of vegetables & mushrooms and services related to agro and allied sectors.	100%	Automatic	
2. Tea sector, including plantation (FDI is not allowed in any other agricultural sector /activity)	100%	FIPB	
B. Industry			
1. Mining covering exploration and mining of diamonds & precious stones; gold, silver and minerals.	100%	Automatic	
2. Coal and lignite mining for captive consumption by power projects, and iron & steel, cement production.	100%	Automatic	

3. Mining and mineral separation of titanium bearing minerals	100%	FIPB	
C. Manufacturing			
1. Alcohol- Distillation & Brewing	100%	Automatic	
2. Coffee & Rubber processing & Warehousing.	100%	Automatic	
3. Defense production	26%	FIPB	
4. Hazardous chemicals and isocyanides	100%	Automatic	
5. Industrial explosives -Manufacture	100%	Automatic	
6. Drugs and Pharmaceuticals	100%	Automatic	
7. Power including generation **(except Atomic energy)**; transmission, distribution and power trading. (FDI is not permitted for generation, transmission & distribution of electricity produced in atomic power plant/atomic energy since private investment in this activity is prohibited and reserved for public sector.)	100%	Automatic	
D. Services			
1. Civil aviation (Greenfield projects and Existing projects)	100%	Automatic	
2. Asset Reconstruction companies	49%	FIPB	
3. Banking (private) sector	74% (FDI+FII). FII not to exceed 49%	Automatic	
4. NBFCs : underwriting, portfolio management services, investment advisory services, financial consultancy, stock broking, asset management, venture capital, custodian, factoring, leasing and finance, housing finance, forex broking, etc.	100%	Automatic	
5. Broadcasting a. FM Radio b. Cable network; c. Direct to home; d. Hardware facilities such as up-linking, HUB. e. Up-linking a news and current affairs TV Channel	20% 49% (FDI+FII) 100%	FIPB	
6. Commodity Exchanges	49% (FDI+FII) (FDI 26 % FII 23%)	FIPB	
7. Insurance	26%	Automatic	
8. Petroleum and natural gas : a. Refining	49% (PSUs). 100% (Pvt. Companies)	FIPB (for PSUs). Automatic (Pvt.)	
9. Print Media a. Publishing of newspaper and periodicals dealing with news and current affairs b. Publishing of scientific magazines / specialty journals/periodicals	26% 100%	FIPB FIPB	
10. Telecommunications a. Basic and cellular, unified access services, national / international long-distance, V-SAT, public mobile radio trunked services (PMRTS), global mobile personal communication services (GMPCS) and others.	74% (Including FDI, FII, NRI, FCCBs, ADRs/GDRs, convertible preference shares, etc.)	Automatic up to 49% and FIPB beyond 49%.	

Source: Reserve Bank of India

FDI POLICY IN AGRICULTURE SECTOR

FDI up to 100% is permitted, 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.

Tuning the policy norms further to attract declining foreign investment, in a significant development, India allowing 100 per cent FDI in the agriculture sector including seeds, plantation, horticulture and cultivation of vegetables.

According to the circular by the Department of Industrial Policy and Promotion (DIPP) released on "Consolidated FDI Policy -- Circular 1 of 2011", 100 per cent FDI has been now allowed in development and production of seeds and planting material, floriculture, horticulture, and cultivation of vegetables and mushrooms under controlled conditions. Besides, animal husbandry (including of breeding of dogs), pisciculture, aquaculture under controlled conditions and services related to agro and allied sectors have also been brought under the 100 per cent FDI norm. Similarly, the tea sector has also been brought under the 100 per cent norm.

The DIPP has imposed certain conditions for companies dealing with development of transgenic seeds and vegetables wanting to take the 100 per cent FDI route. According to the circular, when dealing with genetically modified seeds or planting material the company is supposed to comply with safety requirements in accordance with laws enacted under the Environment (Protection) Act on the genetically modified organisms; any import of genetically modified materials, if required, shall be subject to the conditions laid down vide Notifications issued under Foreign Trade (Development and Regulation) Act, 1992; the company shall comply with any other law, regulation or policy governing genetically modified material in force from time to time; undertaking of business activities involving the use of genetically engineered cells and material shall be subject to the receipt of approvals from Genetic Engineering Approval Committee (GEAC) and Review Committee on Genetic Manipulation (RCGM); the Import of materials shall be in accordance with National Seeds Policy.

Further it states the term "under controlled conditions" covers the following: Cultivation under controlled conditions' for the categories of floriculture, horticulture, cultivation of vegetables and mushrooms is the practice of cultivation wherein rainfall, temperature, solar radiation, air, humidity and culture medium are controlled artificially. Control in these parameters may be affected through protected cultivation under green houses, net houses, poly houses or any other improved infrastructure facilities where microclimatic conditions are regulated anthropogenically.

In case of animal husbandry, the term under controlled conditions includes: rearing of animals under intensive farming systems with stall-feeding. Intensive farming system will require climate systems (ventilation, temperature/humidity management, health care and nutrition, herd registering/pedigree recording, use of machinery, waste management systems. Poultry breeding farms and hatcheries where microclimate is controlled through advanced technologies like incubators, ventilation systems etc.

In the case of pisciculture and aquaculture, it includes: aquariums hatcheries where eggs are artificially fertilized and fry are hatched and incubated in an enclosed environment with artificial climate control.

IMPACT OF FDI IN AGRICULTURE ON INDIAN ECONOMY

Foreign Direct Investment (FDI) inflow into the core sectors plays a significant role as a source of capital, management, and technology in transitional economies. It implies that FDI can have positive effects on the host economy's developmental efforts. India has opened its economy and has allowed the entry of multinational corporations (MNCs) as a part of the reform process started in the beginning of1990s like many other countries, India has offered greater incentives to encourage FDI inflows into its economy. The presence of FDI inflow in India was negligible till 1991, but there has been a steady build-up in the actual FDI inflows in the post-liberalization period. The share of FDI in GDP was merely 0.03 per cent in 1991, which rose to about 3 per cent in 2009-10. Its annual growth during this period was phenomenal. The FDI inflow has been growing rapidly since then with a quantum jump after 2004-05 from US $3250 million in 2004-05, the FDI has leaped to over US $247329 million in 2008-09. However, since February 2008, a reversal in the trend has been observed a perusal of the monthly inflow of FDI between January 2008 and January 2010 suggests a clear decline over a period of 24 months due to financial crisis in the world.

The share of agriculture in the total FDI in India is negligible the recent data show that agriculture accounted for only about 1 .5 per cent of the total FDI inflows into India. In the agriculture sector, the entry of FDI was confined to plantation crops, food processing industries, agricultural services and agricultural machinery. FDI has been allowed in fertilizer manufacturing also, which have a direct bearing on agriculture but was not allowed in the cultivation of crops or rearing of livestock. However, its entry into the food processing sector can have ramifications on the agriculture sector (though it may be limited). Therefore, though the FDI inflow has slowed down over the past one year, its impact would not be visible on agriculture, as the dependence of agriculture on FDI is minimal.

Total exports of Indian agriculture and processed food products from April to August 2013 stood at US$ 9,711.09 million as compared to US$ 8,806.41 million during the same period last year, according to the data released by the Agricultural and Processed Food Products Export Development Authority (APEDA). India's tea production rose by 12.59 per cent to 156.70 million kg in September 2013 on account of higher output in southern regions and West Bengal (WB). The output was 144.11 million kg in the same month last year, as per the data released by Tea Board of India. The Coffee Board of India has estimated coffee consumption in India to be around 125,000 tones for 2013, registering a growth of 5-6 per cent annually since 2010. The foreign direct investment (FDI) inflows in agricultural services and machinery sector during April 2000 to August 2013 stood at US$ 1,629.19 million and US$ 337.35 million respectively, as per the data released by Department of Industrial Policy and Promotion (DIPP).

The government has allowed up to 51 per cent FDI in multi-brand retail which will positively influence agriculture and enable its modernization even further. Foreign investors are likely to bring in efficiencies, especially in food supply chains; they are likely to invest in logistics such as warehouses and cold storages. Direct procurement from farmers will be likely result in higher prices for the farmer and lower ones for the consumer National Food Security Bill. Under the proposed National Food Security Bill, government guarantees beneficiaries a prescribed quantity of food grains at heavily-discounted prices. To meet the demand that could emanate from implementation of the bill, the government will take measures to raise productivity, likely to invest more on the storage infrastructure, which will reduce wastage and thereby lead to lower prices.

Companies provide R&D and agricultural implements to farmers
Regular and timely payments to farmers and credit facilities
Reduces the price risk fluctuations and saves land investments for companies
Lesser logistics cost for both, farmers and companies
Stable and steady supply of quality farm output for companies
Foreign companies practicing contract farming in India such as Company State Crop Cargill India Pvt Ltd Madhya Pradesh Wheat, Maize and Soya bean, Hindustan Lever Ltd Madhya Pradesh Wheat, ITC - IBD Madhya Pradesh Soybean, Nestle India Ltd Punjab Milk and Pepsi Foods Pvt Ltd Punjab, TN Chillies, Groundnut, seaweed, Tomato and Basmati Rice.

The government of India is relentlessly working towards making agriculture a promising investment sector for global players. With the Food Security Bill passed in parliament, the need for more investments in the agricultural sector of India is to increase.

CONCLUSIONS

Growth in agriculture and its productivity are considered essential in achieving sustainable growth and significant reduction in poverty in developing countries. The productivity growth in the agricultural sector as critical if agricultural output is to increase at a sufficiently rapid rate to tackle poverty. Limited development and adoption of new production technologies essential for improving productivity by the poor are mostly due to limited income and sources of credit in primary sector of agriculture. 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, pisciculture, aqua culture, cultivation of vegetables, mushroom and services related to agro and allied sectors.

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