Review Article

Foreign Direct Investment in Agriculture

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Abstract

Growth in agriculture and its productivity are considered essential in achieving sustainable growth and significant reduction in poverty in developing countries. Both developmental and agricultural economists view productivity growth in the agricultural sector as critical if agricultural output is to increase at a sufficiently rapid rate to tackle poverty. In view of the declining cultivable land per capita, high production costs, combined with rapid population growth and the resulting need for human settlement, and rising urbanization, significant improvements are required in productivity growth in agriculture in order to increase agricultural output through technological innovations and efficiency. 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. 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, aquaculture, cultivation of vegetables, mushroom and services related to agro and allied sector.

Keywords: Agriculture, FDI, Investments, Fertilizer, Cropland.

Introduction

Indian Economic system has been developing at a indicating a time ahead of the last two decades. Since act of making less strict in 1991 the Indian middle class or social class between the lower and upper classes has greatly expanded, so has its purchasing possession of controlling power to affect persons or events especially power based on prestige.

In the worldwide scale foreign direct investment in retail business has been growing not liable to fluctuating rate or pace in various countries. However India has been slow to open its retail sector to foreign investment.

Earlier in time to liberalization, India was a closed economy. Throughout that time, the retail sector comprised of small privately owned stores that did not have corporate in charge of running a business and were known as traditional retailers.

The general idea inferred or derived from specific instances of branding was circumscribed and very few brands were present in the Indian commercial market activity where goods and services are bought and sold.

Post liberalization Indian corporate and multinationals made their entry to the Indian retail sector; this led to the proliferation of brands(1).

Although FDI was limit access in retail foreign brands made entrance into the Indian market via several established line of travel or access such as whole sale cash and carry, wholly-owned functioning in a supporting capacity in manufacturing, licensing and distribution agreements, venture by a partnership or conglomerate designed to share risk or expertise for each brand (or single-brand retail route), franchising and commission agents. At present the declination in global foreign direct investment inflows, India's FDI heightened by 26 per cent in 2014 to an estimated $35 billion with maximum growth in the services.

A foreign direct investment (FDI) is a controlling ownership in a business enterprise in one country by an entity based in another country. Foreign direct investment is distinguished from Portfolio foreign investment a passive investment in the securities of another country such as public stocks and bonds, by the element of "control".

According to the Financial Times "Standard definitions of control use the internationally agreed 10 percent starting point for a new state or experience of voting shares, but this is a grey area as many times at short intervals, a smaller block of shares will give control in a great degree held companies. Moreover, control of technology, management, even crucial inputs can confer de facto control.”

The origin of the investment does not impact the definition as an FDI, i.e., the investment may be made either "inorganically" by buying a company in the reference point to shoot at country or "organically" by extend in one or more directions operations of an existing business in that country.

It is estimated that the share of retail trade in GDP is approximately 11-12 per cent (2). In 2010, the Indian retail market was valued at $435 billion, of which the share of organized or modern retail was 7 per cent or $30.05 billion.

The sector is expected to grow $535billion by 2013 while the share of modern concept increased by 10%-20% up to 2020.

**Concept of FDI**

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. According to the World Banks World Development Report, in 2000 over 1.1 billion people were subsisting on less than US$1 a day and around 2.1 billion people on less than US$2 a day of whom between two thirds to three-quarters live in rural areas.

In Sub Saharan Africa (SSA), where about 43 percent of its population is living below the international poverty line, the incidence of poverty is the highest among smallholder farmers rebidding in rural areas. Thus, if the war on poverty is to be won, developing India, agriculture is an important sector of the Indian economy and accounts for almost 19% of Indian gross domestic products (GDP).

Agriculture is the main stay of the Indian economy as it forms the backbone of rural India which inhabitants more than 70% of total Indian population. 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. Only in Tea sector 100% FDI is allowed, including plantations of tea. This requires ping countries need to place more emphasis on the agricultural sector(2).
Foreign investment was introduced in 1991 under FEMA, driven by then finance minister Manmohan Singh. As Singh subsequently became the prime minister, this has been one of his top political problems, even in the current times. India disallowed overseas corporate bodies (OCB) to invest in India. India imposes cap on equity holding by foreign investors in various sectors, current FDI in aviation and insurance sectors is limited to a maximum of 49%.

Starting from a baseline of less than $1 billion in 1990, a 2012 UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware.

Mauritius, Singapore, US and UK were among the leading sources of FDI. Based on UNCTAD data FDI flows were $10.4 billion, a drop of 43% from the first half of the last year FDI flows to India increased by 26 per cent in 2014 to an estimated 35 billion, with maximum growth in services sector especially in electricity, gas, water, waste management and information and communication, the report said.

This figure is one of the highest in recent years, though in 2008 FDI peaked in India with $47 billion investment followed by $35.6 billion in 2009. James Zhan, Director of Investment and Enterprise, at UNCTAD said, "India is still a bright spot for FDI despite a global decline. It is at a significant historical high though not at the highest level of investment."

"If policy trends encourage liberalization then we can expect more FDI in China despite a slowdown in economic growth," said Zhan referring to new draft for full foreign investment law that was proposed last week in Beijing.

The top five FDI hosts in 2014 were China ($128 billion), followed by Hong Kong ($111 billion), the US ($86 billion), Singapore ($81 billion) and Brazil ($62 billion). "In 2014 global FDI inflows declined by 8 per cent to an estimated $1.26 trillion due to fragility of the global economy, policy uncertainty and geo-political risks," the report said.

Thus it is clearer that in present LPG era the need of FDI became very vital. Its play a wider scope in this globalised world. It is work with all pros and cons. lets us seen the impact of it’s on the field of agriculture sector. There are mainly three type of FDI-horizontal, vertical, platform FDI.

**FDI in Agriculture**

In India, agriculture is an important sector of the Indian economy and accounts for almost 19% of Indian gross domestic products (GDP). Agriculture is the main stay of the Indian economy as it forms the backbone of rural India which inhabitants more than 70% of total Indian population. 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. Only in Tea sector 100% FDI is allowed, including plantations of tea. This requires f the Indian economy and accounts for almost 19% of Indian gross domestic products (GDP). Agriculture is the main stay of the Indian economy as it forms the backbone of rural India which inhabitants more than 70% of total Indian population.

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sector of India. No FDI / NRI / OCB are allowed in the Indian Agriculture sector.

Only in Tea sector 100% FDI is allowed, including plantation of tea. This requires Govt. 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 [3]. 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(4).

In Agriculture FDI shown in different sector Inflows to Agricultural Machinery -FDI inflows in the Indian agricultural machinery and the subsequent development of the Indian agriculture sector is predicted to have a significant positive impact on the 700-million strong rural population, living in about 600,000 small villages of India. Agriculture is an important sector of the Indian economy, which accounted for almost 19% of India's GDP.

The total quantum of foreign direct investment in the Indian agricultural machinery was US $135.50 million during the period from August 1991 to December 2011. The overall percentage of such foreign direct investment in an agricultural industry was 0.43 of the total quantum of the FDI inflow during the same period. FDI inflows into agricultural machinery of India have resulted in the steady rise of the Indian agriculture industry in recent years(5).

The Indian agriculture sector enjoys 100% FDI through the automatic route. Important factors in 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 are 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 Indian economy has been heavily geared towards the service sector that contributes 56% of our GDP.

The service sector's contribution to the increase in GDP over the last 5 years has been 63.9%. Having a high contribution from services is an attribute that is characteristic of developed economies. China, manufacturing accounts for a significant share of GDP, whereas in India, manufacturing contributes a mere 23.1% of the GDP.

India to grow at an 8 to 10% economic growth rate our agricultural sector has to expand. For that to happen there is a need for reforms in our agricultural sector in the way which calls for agricultural produce to be procured, stored and marketed, for huge investments in the supply and distribution chain sectors associated with it.

**FDI in Indian Agriculture Sector and the Latest Developments are as Follows**

1. 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 agro and allied sectors.
2. Farm credit target of 225,000 crore for 2007-08 has been set with an addition of 50 lakhs new farmers to the banking system in previous f.y.
3. 35 projects have been completed in 2010-2011. And additional irrigation potential of 900,000 hectares to be created and training of farmers arranged.
4. A pilot programmed for delivering subsidy directly to farmers has been arranged.
5. Loan facilitation through Agricultural Insurance and NABARD has also been facilitated.
6. Corpus of Rural Infrastructure Development Fund to be raised.

**FDI Inflows to Fertilizers Industry in India**

The government of India has allowed foreign direct investment in the fertilizers industry of
the country. Foreign Direct Investment (FDI) in fertilizers in India is allowed up to 100% under the automatic route in India. The total amount of FDI Inflows to Fertilizers industry in India was US$ 78.22 million between August 1991 and December 2005. It became just double at present.

The percentage of FDI Inflows to Fertilizers industry in India stood at 0.26% out of the total foreign direct investment in the country during August 1991 to December 2005. Bayer Crop of Germany was given the approval in 2003, to invest 74 crores in Aventis Crop Science in India involved in the production of fertilizers and pesticides (6).

Through this investment Bayer Crop increased its stake in Aventis Crop from 67.08% to 100%. This made Aventis Crop a fully owned subsidiary of Bayer Crop (6).

Advantages of FDI Inflows to Fertilizers Industry in India
The various advantages of FDI Inflows to Fertilizers industry in India are:
1. Growth and expansion of fertilizer industry in India.
2. Use of improved technology.
3. Better quality fertilizers that are more effective for agriculture.

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. The government has announced 100 per cent Foreign Direct Investment (FDI) in the agriculture sector including seeds, plantation, horticulture and cultivation of vegetables.

iv) The Department of Industrial 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 Policy and Promotion (DIPP). According to the circular by DIPP. On September 14, 2012 Prime Minister Manmohan Singh announced that multi-brand retail would be open to FDI on a state to state basis. The argument of the government is that opening up multi brand retail to FDI will help develop and modernize India’s agriculture sector and generate higher income for farmers. However, this step has drawn a lot of flak and has been criticized on various fronts.

v) 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.

vi) 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 favor of an Indian partner / Indian public within a period of five years; and prior approval of the state government concerned in case of future land use change. Besides the above two, FDI is not allowed in any other agricultural sector / activities.

4. The government of India has allowed foreign direct investment in the fertilizers industry of the country. Foreign Direct Investment (FDI) in fertilizers in India is allowed up to 100% under the automatic route in India.

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. It has been further argued that India should open up its retail sector for further development of the agriculture sector(7).

5. It is believed that foreign retailers would bring with them the best practices and investments in the supply and distribution chain and at the same time open up linkages to the global markets for Indian agricultural and dairy products.

6. The advocates of FDI in retail believe that allowing 100% FDI in retail would lead to an agriculture and dairy revolution in the country. To put in simple words FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy.

7. Foreign Investment in India is governed by the FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act (FEMA) 1999.

8. The Reserve Bank of India in this regard had issued a notification, 11 which contains the Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000. This notification has been amended from time to time.

9. The Ministry of Commerce and Industry, Government of India is the nodal agency for monitoring and reviewing the FDI policy on continued basis and changes in sector policy sector equity cap.

10. The FDI policy is notified through Press Notes by the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP). The foreign investors are free to invest in India, except few sectors/activities, where prior approval from the RBI or Foreign Investment Promotion Board (FIPB) would be required(8).

**Conclusion**

Growth in agriculture and its productivity are considered essential in achieving sustainable growth and significant reduction in poverty in developing countries. Both developmental and agricultural economists view productivity growth in the agricultural sector as critical if agricultural output is to increase at a sufficiently rapid rate to tackle poverty.

In view of the declining cultivable land per capita, high production costs, combined with rapid population growth and the resulting need for human settlement, and rising urbanization, significant improvements are required in productivity growth in agriculture in order to increase agricultural output through technological innovations and efficiency.

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.

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, aquaculture, cultivation of vegetables, mushroom and services related to agro and allied sector.

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