



## A STUDY OFFOREIGN DIRECT INVESTMENT IN AGRICULTURE SECTOR IN INDIA

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### **Abstract**

FDI up to 100% is allowed under the automatic route, subject to certain conditions specified in the following consolidated FDI policy in agricultural activities, such as floriculture, vegetable growing, beekeeping and cultivation of vegetables & mushrooms under controlled conditions; Development and production of seeds and planting material. Livestock production (including breeding dogs), pisciculture, Aquaculture, under controlled conditions; and services related to agro and allied sector 100% FDI is permitted in the tea industry. In addition to the above, FDI is not allowed in any other agricultural sector / activity. Policy for FDI in Multi- Brand retail trading (MBRT) provides that at least 50% of the first tranche of US \$ 100 million to be invested, back-end infrastructure, which includes the construction of warehousing and cold storage facilities. In India, agriculture is an important sector of the Indian economy and accounts for nearly 14 percent of India's gross domestic product (GDP). Agriculture forms the backbone of India's rural population that resides in 65% of thus, any political decision for the Indian agriculture has an impact on the vast majority of the population there is growing evidence that investing in the most effective ways to reduce poverty and hunger in the agricultural sector in India. Agricultural investment can generate a wide range of benefits. The agricultural sector is facing a crisis. Ardent students of the Indian economy and all who follow the latest trends in its agricultural growth and development, will agree that the sharp deceleration in the agricultural sector, despite the impressive overall growth of the Indian economy is a major cause of concern today. There could be no better time than now, time is a vital part of the second green revolution for the Indian economy provides a critical examination for second generation reforms in the near future. FDI in Indian farmers is one of the effective measures to improve the agricultural sector. This article attempts to examine FDI in agricultural policy. The current study focused on trends in FDI flows in agriculture from 2001 to 2016. The paper contains the positive and negative effects on the Indian agricultural sector to foreign investment.

**Keywords:** *Agricultural Sector, Auxiliary Sectors, DIPP, FDI Equity Inflows.*

### **Introduction**

The agricultural sector in India is the main source of livelihood for more than 70 percent of the rural population. Similarly half of the households in the rural population show some sign of poverty (Singh &Walis 2015). In this scenario if the main aim of the Indian government is economic development and poverty reduction, then the priority should be the growth of the agriculture sector. One of the major reforms in the agriculture sector in recent years is the inflow of foreign direct investment. Even though most of the areas in agriculture sector is still closed for the foreign investment. There has been significant increase in foreign investment in several sectors. Since Independence, the government of India has encouraged the flourishing of the agricultural sector. The sector is aided with several reformation policies and subsidies. However, a major policy change took place after the liberalisation of the Indian economy in 1991<sup>1</sup>. Along with other economic reforms and inflow of foreign investment in agricultural sector was also opened (Wadhwa& Arora Wadhwa 2015). Though the foreign direct investment in agriculture was permitted but the size of the investments were small. This is due to the primitive structure of the sector and lack of a technological base. Out of 129 million dollars of total inflow in 1991 only 6% was invested in the agricultural sector (Dutta &Sarma 2008). Eventually with the development of the Indian agricultural market and the improvising technology usage in the agricultural sector the inflow of capital has increased to USD 40,885 million<sup>2</sup>. The graph below evaluates the growth of the agricultural sector with importance to the main crops of the country.

### **Objectives of Study**

The study has been geared to achieve the following objectives;

1. To understand the current Scenario of Indian Agriculture Sector.
2. To analyse the trends of FDI inflow in Agricultural Sector during 2000-01 to 2016-17.
3. To study the opportunities and challenges of FDI in Indian Agricultural Sector.

### **Research Methodology**

Type of Research: Quantitative and Analytical Research Data: Data of FDI Equity inflows in Agricultural Sector from year 2000-01 to 2016-17. This study has been carried out with the help of secondary data only, all the data has been collected from the various sources such as websites & reports and compiled as said by the need of the study. The study is based on the published data. The data was extracted from the various journals, magazines and websites particularly from the Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry and Reserve Bank of India. Tables have also been used wherever required to depict statistical data of FDI during the study period.

### **FDI Policy in India**

In simple words FDI refers to capital inflows from abroad that are invested in or to enhance the production capacity of the economy. Foreign Investment in India is governed by the FDI policy announced by the Government of India. The main governing bodies that define the future role of agriculture in India are the Ministry of Agriculture, the Ministry of Rural Infrastructure and the Planning Commission of India. It aims at developing agricultural sector of India.<sup>3</sup> The latest developments in FDI in Indian agriculture sector are as follows 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.

### **Major Agricultural Products Attracting Foreign Direct Investment**

With the progress in technology the agricultural service sector attracted USD 76 billion of investment which is 0.93% of the total inflow of foreign direct investment. And the agriculture sector contributed 0.14% to the GDP as a whole. Moreover, the food processing industry had USD 86 billion investment which is 1.05% of the total foreign capital inflow (Kumar 2014). Similarly 100% foreign direct investment was allowed through the automatic route in various sectors. These include horticulture, floriculture, development of seeds, animal husbandry, pisciculture, aqua culture, and cultivation of vegetables, mushroom and services related to agro and allied sectors (Wadhwa & Arora Wadhwa 2015). In agriculture machinery, total inflows during the period of 2001-2015 was USD 418.65 million. Consequently foreign investment in horticulture and floriculture was USD 534 million (Adhana 2016).<sup>4</sup>

### **Market Size**

India's gross domestic product is expected to grow at 7.1 per cent in FY 2016-17, led by growth in private consumption, while agriculture GDP is expected to grow above-trend at 4.1 per cent to Rs 1.11 trillion, according to Central Statistics Office. As per the 1st Advance Estimates, India's food grain production is expected to be 135.03 million tonnes in 2016-17. India, the second-largest producer of sugar, accounts for 14 per cent of the global output. Groundnut exports from India are expected to cross 700,000 tonnes during FY 2016-17 as compared to 537,888 tonnes during FY 2015-16, owing to the expected 70 per cent increase in the crop size due to good monsoons. Spices exports from India grew by 5 per cent in volume and 7 per cent in value year-on-year to 4,37,360 tonnes valued at Rs 84.2 billion respectively during April-September 2016, according to the Spices Board of India. Indian agrochemical industry is expected to grow at 7.5 per cent annually to reach US\$ 6.3 billion by 2020 with domestic demand growing at 6.5 per cent per annum and export demand at 9 per cent per annum.<sup>6</sup>

### **Investments**

According to the Department of Industrial Policy and Promotion (DIPP), the Indian agricultural services and agricultural machinery sectors have cumulatively attracted Foreign Direct Investment (FDI) equity inflow of about US\$ 2,299.83 million from April 2000 to September 2016. India and Brazil have signed a bilateral investment agreement, aimed at enhancing cooperation in areas of agriculture, cattle genomics, ship building, pharmaceuticals, defence production, ethanol production and oil and gas, between the countries. Zephyr Peacock, the India-focused private equity fund of US-based Zephyr Management, has invested an undisclosed amount in Bengaluru-based potato seeds firm Utkal Tubers India Pvt Ltd, which will be used to produce high-quality mini-tubers in a tissue culture laboratory and multiply them in its own development farms and through supervised contract farming in different regions of the country. Mahindra Agri Solutions Ltd, a unit of Mahindra & Mahindra Ltd, has agreed to purchase 60 per cent stake in OFD Holding BV, a Netherlands-based fruit distribution company, for Rs 36 crore, which will provide MASL access to European and Chinese markets for Indian grapes. Mahindra and Mahindra Ltd has acquired 35 per cent stake in a Finnish combine harvesters manufacturer, Sampo for US\$ 20.46 million and will jointly focus on the combine harvester business in Asia, Africa and Eurasian Economic Union countries.<sup>7</sup> Mahindra & Mahindra, India's leading tractor and utility vehicle manufacturer, has entered into pulses retailing under the brand 'NuPro'. Going forward, the company plans to foray into e-retailing and sale of dairy products.

### **Government Initiatives**

Given the importance of the agriculture sector, the Government of India, in its Budget 2017-18, planned several steps for the sustainable development of agriculture- Total allocation for rural, agricultural and allied sectors for FY 2017-18 has been increased by 24 per cent year-on-year to Rs 1,87,223 crore. A dedicated micro-irrigation fund will be set up by National Bank for Agriculture and Rural Development for farmers to achieve the goal of 'Per Drop More Crop'. Short-term crop loans up to Rs 300,000 at subsidised interest rate of 7 per cent per annum would be provided to the farmers. The NITI Aayog has proposed various reforms in India's agriculture sector, including liberal contract farming, direct purchase from farmers by private players, direct sale by farmers to consumers, and single trader license, among other measures, in order to double rural income in the next five years. The Maharashtra State Agriculture Marketing Board has operationalized 31 farmer-to-

consumer markets in the state, and plans to open 100 more such markets in the future, which would facilitate better financial remunerations for the farmers by allowing them to directly sell their produce in open markets. The Central Government plans to open at least one KrishiVigyan Kendra in all districts of the country, which will provide advanced agriculture technical assistance to the farmers near their farms itself. According to the Agriculture Ministry, 50,000 hectares of area is available for coconut cultivation in Bihar, the Coconut Development Board plans to equip the farmers thus making India the world leader in production, productivity, processing for value addition and export of coconut. The Cabinet Committee on Economic Affairs (CCEA) has approved 'Blue Revolution', an umbrella scheme for integrated development and management of fisheries by Government of India, with total financial outlay of Rs 3,000 crore (US\$ 440.15 million) for a period of five years.<sup>8</sup> The Ministry of Power, Coal, New and Renewable Energy has announced that government's plans to invest Rs 75,000 crore (US\$ 11.08 billion) in an energy-efficient irrigation scheme over the next three to four years.

#### FDI Inflows in Agricultural Services and Machinery

FDI inflows in the Indian agricultural services and machinery are allowed up to 100 percent and allowed through automatic route in India. The foreign direct investment (FDI) inflows in agricultural services and machinery sector during April 2000 - April 2016 stood at US\$ 1,859.17 million respectively, as per data released by Department of Industrial Policy and Promotion (DIPP).

**Statement on Sector-Wise FDI Equity Inflows From April 2000 to September 2016**

Name of the Sector	FDI Inflows in (Crores)	(In US\$ million)	%age of Total Inflows
Agriculture Services	9,375.40	1,859.17	0.60
Agricultural Machinery	2,303.98	440.66	0.14

Source: Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, Govt. of India.

The overall percentage of such foreign direct inflow in the Indian agricultural services and agriculture machinery is 0.60 and 0.14 of the total quantum of the FDI inflow during the 2000-16. FDI inflows into agricultural machinery of India have resulted in the steady rise of the Indian agriculture industry in recent years.

#### 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 various advantages of FDI inflows into fertilizer industries are growth, quality, improved technology and expansion of fertilizer industry. 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.

**Sector-Wise Foreign Direct Investment Equity Inflows in India during April, 2000 - January, 2016**

Name of the Sector	FDI Inflows in (Crores)	FDI Inflows in (US\$ million)	Percentage Share in Total
Fertilizers	3,061.94	565.07	0.18

Source: Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, Govt. of India.

#### FDI Inflows to Food Processing Industries

Food processing has a vital link with agriculture sector. Government of India gave an estimation of FDI inflows to reach USD 7,316.46 million by 2016 keeping in view the rising demand amongst the corporate players in the Indian retail industry. 100 per cent of 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. Most of the items in food processing sector are exempted from licence agreement, except those that are kept in reserve for the small scale sectors.<sup>9</sup>

**Sector-Wise Foreign Direct Investment Equity Inflows in India during April, 2000 - January, 2016**

Name of the Sector	FDI Inflows in (Crores)	FDI Inflows in (US\$ million)	Percentage Share in Total
Food Processing Industries	43,612.73	7,316.46	2.36

Source: Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, Govt. of India

India has emerged as a major player in the global agriculture market. Indian agriculture exports during 2012-2013 were US\$ 41 billion against agriculture imports of US\$ 20 billion, with an output of net trade surplus of US\$ 21 billion. Having a good rainfall, the agriculture sector in India is likely to grow in the range of 5.2-5.7 per cent in 2013-14 agriculture year (July-June), nearly three times more than the last year. The farm sector had grown at 1.9 per cent last fiscal. In 2012-13, the share



of exports of agricultural and processed food products in overall exports rose to 10.6 per cent. Total exports of Indian agricultural and processed food products during April–November 2013 stood at US\$ 14,515.10 million as compared to US\$ 13,281.47 million during the same period last year, according to data released by the Agricultural and Processed Food Products Export Development Authority (APEDA). FDI would also bring investment in post-harvest infrastructure that would increase the shelf-life of produce and minimize food wastage (now as high as 20-30%).<sup>10</sup> Moreover, new investment would result in other positive externalities such as better seeds and stricter standards that would increase quality and productivity while lowering costs.

### Conclusion

The subsequent development of the Indian agriculture sector through FDI is predicted to have a significant positive impact on the 700-million strong rural populations, living in about 600,000 small villages of India. Rapid 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. FDI in Indian agriculture sector increase employment opportunities. FDI remains permanent in the host country because of the development in the infrastructures of the host country. Therefore, there exist the long run relationship between level of GDP and foreign capital stock.

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