AGRICULTURAL TRANSFORMATIONS: ROLE OF FDIs IN AGRICULTURE SECTOR

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ABSTRACT

There are three goals of agricultural development in India. These are: (a) achieving high growth by raising productivity; (b) inclusiveness by focusing on lagging regions, small farmers and women; and (c) sustainability of agriculture. Agriculture is the backbone of Indian economy and it accounts for almost 14% of India's gross domestic product (GDP). Agriculture is an important sector, which determines growth and sustainability and plays a vital role in the development of India with over 60 percent of the country's population deriving their subsistence from it. Most of the rural population in India depends on agricultural practices for employment and livelihood. Indian economy in agriculture has shown a steady growth in the last two decades. The agriculture industry in India is growing at a great pace and is expected to grow many folds in the near future. After globalization, like all other countries India also allowed FDI in various sectors including agriculture. This paper focuses on role of FDIs in promoting economic growth of India.

Key Words: *Agriculture, inclusiveness, FDI, GDP, Indian Economy*

INTRODUCTION

FDI refers to capital inflows from abroad that are invested in to enhance the production capacity of the economy. 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. The latest development in FDI in Indian agriculture sector is that: 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.

FDI would also bring investment in postharvest infrastructure that would increase the shelf life of produce and minimize food wastage (now as high as 2030%). 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. The subsequent development of the Indian agriculture sector through FDIs 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.

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 2014 stood at US$ 2026.04 million respectively, as per data released by Department of Industrial Policy and Promotion (DIPP).

Table1: Sector wise Foreign Direct Investment Equity Inflows in India
(During April, 2000 January, 2014)

Name of sector	**FDI Inflows(in crores)**	**FDI inflows (in US$ million)**	**Percentage share in total investment**
Agricultural Services	8283.82	1687.83	0.16
Agricultural Machinery	1665.45	338.21	0.16

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 0.80 and 0.16 of the total quantum of the FDI inflow during the 2000-14. 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

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.

Table 2: Sector Wise Foreign Direct Investment Equity Inflows in India
(During April, 2000 January, 2014)

Name of the sector	FDI Inflows (in crore)	FDI inflows (in US$ million)	Percentage share in total
Fertilizers	1538.09	318.55	0.15

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 5360.89million by 2014 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.

Name of the sector	FDI Inflows (in crore)	FDI inflows (in US$ million)	Percentage share in total
Food Processing Industries	31118.30	5360.89	2.53

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.

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).

CHANGED PATTERN OF AGRICULTURE

The way in which food is being produced (e.g. the industrialisation of agriculture), distributed (e.g.the globalisation of the food markets), marketed (e.g. the spread of transnational retailers) and consumed(e.g. the increasing amount of processed foods or the globalisation of food cultures) has changed dramatically over the past thirty years. These processes have been accompanied by changing investment patterns in the agri-food sector. First, since the 1980s many countries – mainly under pressure from the International Monetary Fund (IMF) and the World Bank have stopped subsidising the food sector through supported prices, input subsidies or government credits for farmers (Kherallah et al. 2002, Stein, 1992,

Swinnen & Maertens, 2007). Second, a worldwide increase of food and land speculation observed in thepast ten years (Clapp & Helleiner, 2012, Ouma, 2012). Third, FDI in the agricultural sectors of developing countries have increased dramatically in recent years. These three major developments ignited discussions about whether this “may – or may not – lead to the persistence of food insecurity and poverty in rural communities” (WHO, 2013), and whether investments in the Global South’s agricultural sector, might be an opportunity for development (Cotula et al., 2009).

PRIVATE SECTOR INVESTMENT VIA FDI

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.6 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 .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. 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.

Need for change in narrative in the new context:

Basically, we have to change the narrative on agriculture towards more diversified high value production, better remunerative prices and farm incomes, marketing and trade reforms, high productivity with less inputs, cost effective, less chemical and pesticide based, inclusive in terms of women and youth farmers, small farmers and rain fed areas, nutrition sensitive, environmental friendly and sustainable agriculture. The five 'I's in agriculture: Incentives, Investment, infrastructure, Institutions, Information' have to be modified to achieve the goals

Global trends and Macro policies are equally important for Indian agriculture: There are many challenges at global level such as climate change, geo-political and urbanization. These factors and anti-globalisation is the changing context for food systems and agriculture. Agricultural economists generally restrict to the policies relating to farm sector. However, there is a need to look at macro policies and non-agriculture.

We have to Walk on two legs (agri. and non-agri.) in the changing context:

Rural areas are changing. We have to invest in agriculture for raising the livelihoods but simultaneously shift population from agriculture to non-agriculture over time. Thus, both agriculture and non-agricultre are important for raising income of farm households.

Two agricultures: There are two types of agricultures in India – one is cereal based and the other one is non-cereal based78. Government policies have been biased towards cereals particularly rice and wheat. There is a need to shift from rice, wheat-centric policies to millets based and non-cereal focused policies to promote diversification of cropping patterns.

Doubling farm income (DFI): Estimates show that we need more than 10% per annum growth in income to achieve DFI in 2022. Government seems to be banking on agriculture (crop+livestock) sector for DFI. But, as shown above. Government should also promote much more opportunities in non-farm sector in rural areas. Also, one has to take into account heterogeneity among different classes of farmers. Similarly, environmental aspects of doubling farm incomes have to be assessed.

Remunerative price is the most important factor for farmers: Even after 70 years of independence, we are not able to provide remunerative prices for farmers. Farmers have been getting low prices in normal, drought and good years because of distortions in price and marketing policies. Many reforms in marketing are needed.

Beyond harvest and Freedom for farmers: Agriculture GDP+ indicates that we have to go beyond farming and develop value chain comprising farming, wholesaling, warehousing, logistics, processing, and retailing. Farmers want freedom from restrictions on market and exports. Private sector participation can be improved if some of the fears like the Essential Commodity Act, stock limit and export bans are removed. Banning exports hurts the farmers most. There have been new generation start-ups coming up in agriculture.

Do not forget basics like water and technology: Basics like seeds, fertilizers, credit, land and water management and technology are important and they should not be forgotten. Similarly, investment in infrastructure and R&D are needed. But, we discussed the issues and policies in water and technology as both are crucial for agricultural development. Basically it is not investment alone but efficiency in water management in both canal and ground water is important. Some countries invested more in technology, extension, education, transport, energy and institutions. India is trailing behind in all these areas.

Inclusiveness for broad based growth and equity: Inequalities in agriculture are high. There is a need to focus on small and marginal farmers, women, youth, rainfed areas, Eastern and other lagging regions, social groups like SC and ST farmers. We discussed policy issues in each of these elements of inclusiveness in agriculture. The role of women in agriculture has been increasing. Women collectives and group farming can be encouraged to benefit female farmers. An emerging area of research relates to linkages between agriculture and nutrition. There can be three entry points namely, importance of agriculture for inclusive growth, agriculture for diversification of diets and role of women in agriculture for strengthening agriculture-nutrition linkages. Farmer households spend considerable amount of money on health and education. In fact, health expenditures on catastrophic illness lead to indebtedness in agricultural households. Otherwise, governments have to provide farmers income similar to universal basic income.

Measures to take care of impacts of climate change and improving resilience in agriculture and sustainability: One can achieve higher agricultural growth but it has to be sustainable in terms of using lower resources and less input growth. Resilience in agriculture has to be improved. Climate smart agriculture is being discussed throughout the world to reduce GHG emissions and increase resilience. FAO says that there is a need for raising technical capacity of farmers particularly small holders to enable them adopt climate-smart agricultural practices. Conservation agriculture and zero budget natural farming are some of the methods that have to be used as part of adaptation and mitigation measures for climate change.

Institutions and Governance: Strengthening institutions and governance is crucial for achieving growth, equality and sustainability of agriculture. Institutions throughout the 45 agricultural value chains and food systems are important for better governance and effective implementation. They are also important for reducing inequality. There are several examples of best practices in institutions relating to alternative markets, contract farming, self help groups, farmer federations, farmer producer companies, women collectives like Kudumbashree programme in Kerala, self help groups of women, institutions relating to canal and ground water irrigation and natural resource management. We have to scale up some of these successful institutions for improving agricultural development.

CONCLUSION

The subsequent continuing development of the Indian agriculture sector through FDIs is predicted undertake a significant positive influence on the 700-million strong rural populations, moving into about 600,000 small villages of India. Rapid investments in technology development, irrigation infrastructure, increased exposure of modern agricultural practices and provision of agricultural credit and subsidies are classified as the major factors contributed to agriculture growth. FDI in Indian agriculture sector increase employment opportunities and remains permanent in the host country with the development in the infrastructures from the host country. Therefore, there exist the long term relationship between levels of GDP and foreign authorized shares.

If the entry of FDI is permitting in agriculture retailing, it will ensure adequate flow of capital intorural economy in a manner more likely to promote the welfare coming from all parts of society, particularly farmers and consumers. Though, the concern with farmers can be not imaginary. We already had a bitter example of such entry of foreign trader, therefore tailor-made entry of FDI should be allowed in agriculture retailing. Accomplished by integrating into your likes and dislikes for FDI retailing certain inbuilt safety valves. To make certain the foreign investors complete a genuine contribution towards the development agriculture retailing. Reconstituting the poverty stricken and stagnating rural sphere right into a forward moving and prosperous rural sphere generally is the justifications for introducing FDI in agricultural retailing but the government should executed a special regulatory framework. It will ensure that the retailing giants do make use of predatory pricing or acquire monopolistic tendencies.

As the debate on home and host country's welfare continues, the majority of the empirical studies in food and related sectors concluded that FDI was conducive to economic growth in developing countries, but substituted for trade western world. Within host countries, industries shifted using the reallocation of resources, causing some to grow quicker and others to completely disappear, just like trade liberalization.

FDI carries a stronger relation to growth and trade when put together with trade liberalization. However, not many numerous studies have shown addressed the post-profit repatriation scenarios in developing along with developed countries.

Besides studies on competition among multinationals in a host country (a disorder required for welfare gains within a host country), further testing for factors causing FDI and consequences in dynamic settings is essential for better perception of the advantages of globalization through FDI.

Lately, the processed food industries have cultivated (when measured by their contributions to GDP) rapidly in numerous countries, while agriculture is constantly remain as a major employer in developing countries. Specifically, the result on returns to domestic resources (labor-skilled/unskilled, capital), and resources specific to agriculture should be clearly identified. A continued investigation of the link between multinational activities of these sectors is important so as to understand their role in economic development.

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