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# CONTRIBUTION OF FDI IN AGRICULTURE DEVELOPMENT AND RURAL ECONOMY

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**ABSTRACT**

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. 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.

**KEY WORDS:** Agriculture Development, FDI, Globalisation, Rural Infrastructure Development.

## INTRODUCTION

After globalization, like all other countries India also allowed FDI in various sectors including agriculture. FDIs have been playing an important role in promoting economic growth, triggering technological transfer and creating employment opportunities. Increased economic growth reduces poverty and raises the living standards.

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 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 2013 stood at US$ 1976.04 million respectively, as per data released by Department of Industrial Policy and Promotion (DIPP).

**Table.1: Sectorwise Foreign Direct Investment Equity Inflows in India**
**(During April, 2000 January, 2013)**

| Name of sector | FDI Inflows(in crores) | FDI inflows (in US$ million) | Percentage share in total investment |
|---|---|---|---|
| Agricultural Services | 8213.82 | 1597.83 | 0.16 |
| Agricultural Machinery | 1625.45 | 318.21 | 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 2000-13. 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

**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 5160.89million by 2013 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.

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).

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 (Chakrabarty, 2009). 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.

## 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 the past 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. 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.

## Government Initiatives

Government announced Agricultural Policy, 2000 for improving Indian agricultural sector with a growth of 4% p.a. and promoting private investment. FDI policy, 2000 permitted 100% FDI in agricultural sector, 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. 100% FDI is also permitted in tea sector. Besides the above, FDI is not allowed in any other agricultural sector/ activity.

Investment in agricultural infrastructure has the potential of minimum wastage especially of perishable fresh foods and vegetables and this will lead to increase the income of the farmers. Agricultural Ministry must also frame strong policies for subsidies and their utilization. We also need to create better domestic agricultural infrastructure and market opportunities to attract foreign investors in this sector. Union govt. should frame policies in this regard with state govt. which should be free from bureaucratic procedure; outdated laws & traditions, corruption and non transparency then this will lead to fair production in economy.

Government should try to develop India as an emerging investment destination to solve all the problems of Indian economy in general and agriculture in particular. It is also said that the government must promote sustainable agriculture development through FDI.

## Foreign Direct Investment in Agriculture

The Indian agricultural services as well as the agricultural machinery sectors have cumulatively attracted foreign direct investment (FDI) equity inflows for the tune of US $ 2,153.61 million in the period April 2000-December 2013, Department of Commercial Policy and Promotion (DIPP). Some of the major investments and developments in agriculture in the recent past are as follows:

- IVRCL Ltd's irrigation and water divisions have won orders worth US $ 201.58 million.
- The Oman India Joint Investment Fund (OIJIF) has invested Rs 95 crore (US $ 15.25 million) in GSP Crop Science, a Gujarat-based agrochemicals company.
- Israel based world's seventh largest agrochemicals firm ADAMA Agrochemicals promises to invest at least US $ 50 million in India within the next four years.
- Tafe Motors and Tractors Ltd (TAFE) has invested around US $ 140 million through equity in America-based AGCO Corporation, an internationally manufacturer and distributor of agricultural equipment.

The Department of Agriculture & Cooperation under Ministry of Agriculture has requested for MOUs/Agreements with 52 countries including United State of America. Also, Department of Agriculture Research & Education (DARE) and Department of Animal Husbandry, Dairying & Fisheries (DAHD&F) under Ministry of Agriculture are creating MOUs/Agreements for many other countries making one more number of countries to 63.

## The Changing Landscape

Investments in the agri-food networks did not only become attractive due to the possibilities of export production; the domestic market has also become more attractive for investments. The economic growth has resulted in the development of a growing urbanised middle class with a significantly higher purchasing power. The economic changes have also promoted social change. This includes changes in family structures (growing proportion of nuclear families) and in lifestyles (increasing employment of women, emulation of Western patterns of consumption, growing access to refrigerators and cars). These different factors resulted in changing buying and dietary habits including a growing demand in high value crops, meat and products that fulfil higher quality standards.

While FDI in India’s agricultural sector is growing steadily, its general share in the country’s total FDI inflows is still small. From 2000 to 2013, India’s agricultural sector received 4.3 USD FDI inflows. This is a share of only 2.2 % of the total inflows (195 billion USD) in all Indian sectors. The highest amount of FDI inflows in agriculture has been invested in the food processing industries (1.9 billion USD) and in agricultural services (1.6 billion USD) (Indiastat 2013).

## 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.

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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