Foreign Direct Investment in Indian Agricultural Sector: Opportunities and Challenges States

(Sandeep Kumar[1], Kavita[2])

Introduction

Agriculture is the main resource of livelihood/occupation for over 75 per cent of the rural population in India. Although, it employs about 52 per cent of the labor force, it contributes to only 14.4 per cent of GDP and 10.23 per cent of all exports. Any effort of poverty reduction and economic development must address the problems being faced by the agricultural sector and turn the challenges into economic opportunities for the poor population in rural India. India being a participant to World Trade Organization's General Agreement on Trade in Services, which include wholesale and retailing services, had to open up the retail trade sector to foreign investment (Renuka, R., 2013). India is one of the fastest growing retail markets in the world. The retail sector in India is a key contributor to the country's economy and was responsible for contributing 22 per cent to gross domestic product (GDP) in 2011. In 2012, the Government of India framed some major liberalization policies to support and encourage this sector. India is now the last major boundary for globalized retail agriculture market. In the twenty years since the economic liberalization of 1991, India's middle class has greatly expanded, and so has its purchasing power. 100 per cent foreign direct investment (FDI) allowed through the automatic route covering Horticulture, Floriculture, development of seeds, Animal Husbandry est. and Services related to Agro-Buisson and Agriculture allied sectors.

In India Agricultural retail market is highly patchy and unorganized. Given the various changes like effective subside of rural credit in organized sector, especially for small and marginal farmers, continuous increase of input cost and stagnant crop price, profit potential of agricultural sector has declined substantially. Farmers are still kept on tenterhook, not knowing how to manage their economy, except to play it by years (Gupta D., 2005). If production is good then there is surplus and prices decrease. When there is crop failure farmers hardly get any return in terms of higher price. West Bengal an eastern province of India is the most densely populated among the provinces and paddy is the principal crop here involving millions of rural people for their livelihood. Profitability in paddy cultivation gradually came down to only 13 per cent in 2007 and has further come down to 10 per cent in 2011as per the report of the commission for Agricultural Costs and Prices (CACP) (Choudhury S., 2012).

Trend of FDI in India

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. Table 1 shows the FDI inflow and FDI as percentage of Total GDP & Agriculture GDP in India from the year 2000-01 to 2011-2012 (post liberalization period). The data on FDI inflows into the country shows that foreign investors have shown a keen interest in the Indian economy ever since it has been liberalized.

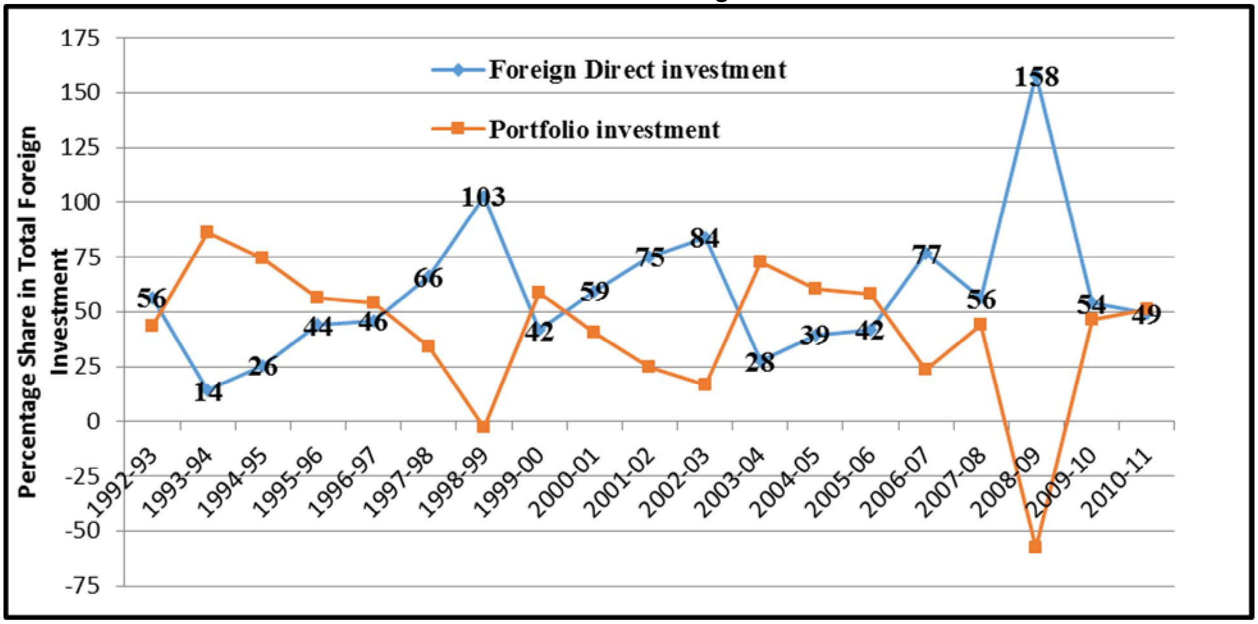
Table 1: Trend of Foreign Direct Investment and Percentage Share in Agriculture & Allied GDP and All India GDP in India during 2000-01 to 2011-12 (` Billion)

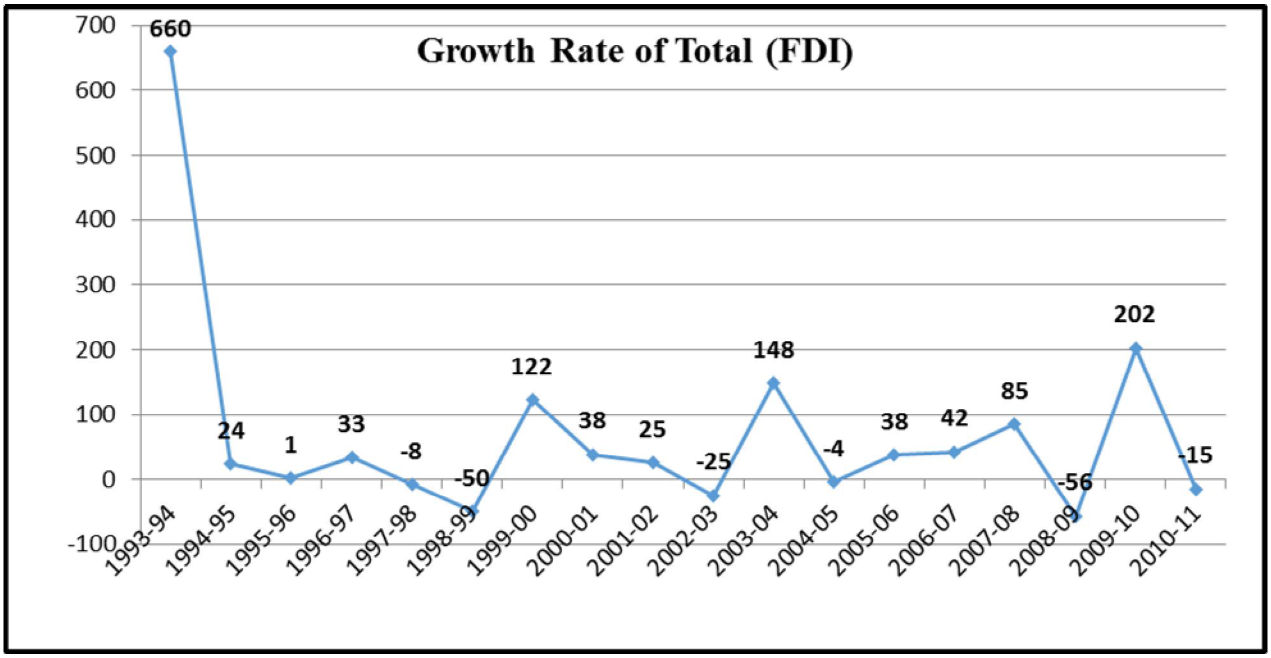
Year	Direct Investment to India	Net Foreign Direct Investment	Net Portfolio Investment	Total FDI	Growth Rate of Total FDI	Total FDI as a % of Ag GDP	Total FDI as a % of Total GDP
2000-01	184	149	118	267	-	5.1	1.1
2001-02	292	226	93	319	19.4	5.8	1.3
2002-03	244	156	45	201	-37.0	3.9	0.8
2003-04	198	109	519	628	212.7	11.1	2.3
2004-05	269	167	413	581	-7.6	10.3	2.0
2005-06	395	134	554	688	18.5	11.6	2.1
2006-07	1027	349	319	668	-2.9	10.8	1.9
2007-08	1394	638	1106	1744	161.1	26.6	4.5
2008-09	1906	1001	-650	351	-79.9	5.4	0.8
2009-10	1578	860	154	1014	188.9	15.7	2.2
2010-11	1181	429	1394	1823	79.8	25.7	3.7
2011-12	1550	1032	856	1888	3.6	25.9	3.6

Note: GDP as constant price, 2004-05 bases.
Source: Handbook of Statistics on Indian Economy, RBI, 2012

An increasing trend of Net FDI flows can be observed since 2000-01 with the peak of Net FDI flows being reached in 2008-09 (**Table 1**). Due to negative Net Portfolio investment total FDI was very less. In Growth rate of FDI also was negative and FDI as % to GDP also less than one. The highest growth rate of FDI inflow is in the year 2003-04 i.e., 212.7 percent. The table also found that FDI as a percentage of totals GDP& Agricultural GDP was highest in the year of 2007-08. Technological up gradation, access to global managerial skills and practices, optimal utilization of human and natural resources, making Indian industry internationally competitive, opening up export markets, providing backward forward linkages and access to international quality goods and services the Indian Government has used many steps to attract more FDI.

Figure 1: Growth rate and Percentage Share of Foreign Direct Investment and Portfolio investment in Total Investment in India during 1992-93 to 2010-11





Overall FDI into almost all the sectors had declined in the year 2011-12 except Fuels (Power + Oil Refinery), a reason for which could be the global situation that prevailed during that time frame. Although services sector remain the sector attracting the highest FDI inflows since 2002-03 its share has been constantly declining. The FDI flows into computer hardware and software has been downward ever since

2006-07. It has drastically gone down from 17.4 per cent in 2006-07 to 1.8 per cent in 2011-12. Housing & Real Estate have shown an upward trend in terms of their share in FDI inflows. Investments in chemicals and metallurgical industries have been erratic as no clear trend could be observed for the time period 2005-06 to 2010-11.

Table 2: Top Investing Sectors Share in FDI Approvals (Financial year-wise) ` Crore

Sector	1991-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2003-2012
Electrical Equipments	19.24	40.79	40.59	32.67	35.95	18.22	**NA**	**NA**	**NA**	**NA**	7.14	7.01
Telecommunications	20.92	14.04	8.82	5.86	16.72	3.19	7.82	8.70	5.86	12.99	2.19	6.14
Services Sector	12.24	20.58	20.47	20.97	14.19	31.12	36.97	33.73	28.22	26.75	12.86	24.44
Fuels (Power + Oil Refinery)	19.99	7.31	8.63	7.56	2.30	1.05	5.39	5.20	9.30	9.83	19.88	10.58
Chemicals	11.42	8.11	1.56	9.05	10.95	1.38	1.28	4.07	2.30	3.12	9.06	5.08
Food Processing Industries	8.37	2.35	8.47	1.73	1.01	0.65	0.61	0.75	**NA**	**NA**	8.73	3.32
Drugs & Pharmaceuticals	3.24	2.55	8.32	13.37	4.20	1.58	**NA**	**NA**	**NA**	**NA**	16.86	6.22
Cement and Gypsum Products	2.55	1.34	0.73	0.01	10.90	1.62	**NA**	**NA**	**NA**	**NA**	2.46	1.35
Metallurgical Industries	2.03	2.95	2.42	8.77	3.77	11.63	6.52	4.94	2.61	8.70	4.30	5.73
Computer Software & Hardware	**NA**	NA	NA	NA	NA	17.43	7.82	8.70	5.86	6.15	1.75	6.07
Housing & Real Estate	**NA**	NA	NA	NA	NA	3.14	12.16	14.99	18.29	8.86	0.00	7.11
Construction Activities	**NA**	NA	NA	NA	NA	6.54	9.72	10.44	18.23	8.74	5.62	8.39
Automobile Industry	**NA**	NA	NA	NA	NA	1.85	3.75	6.19	7.55	10.34	3.04	4.50
Petroleum & Natural Gas	**NA**	NA	NA	NA	NA	0.59	7.97	2.29	1.79	4.51	6.11	4.04
Top 14 sectors	**43,676**	**7,538**	**6,034**	**10,042**	**18,076**	**67,631**	**71,921**	**84,223**	**74,276**	**58,085**	**196,471**	**594,298**
Top 14 sectors	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

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

The Sector wise Analysis of FDI Inflow in India reveals that maximum FDI has taken place in the Fuels (Power+Oil refinery) sector followed by the Construction Activities, Housing & Real Estate, Electrical Equipments, Services Sector and Drugs & Pharmaceuticals in 2003-2012. In 2010-11 Figure 2 shows decreasing trend of FDI in every sector either it is service sector or construction, automobile etc. But in year 2011-12 every sector improves their position in context of FDI. When we see the FDI in agriculture sector, Food processing industries shares is only 4.8% during 2003-2012.

Figure 2: Percentage Share of Top Sectors - FDI Equity Inflows (Cumulative, April 1991 to March 2002)

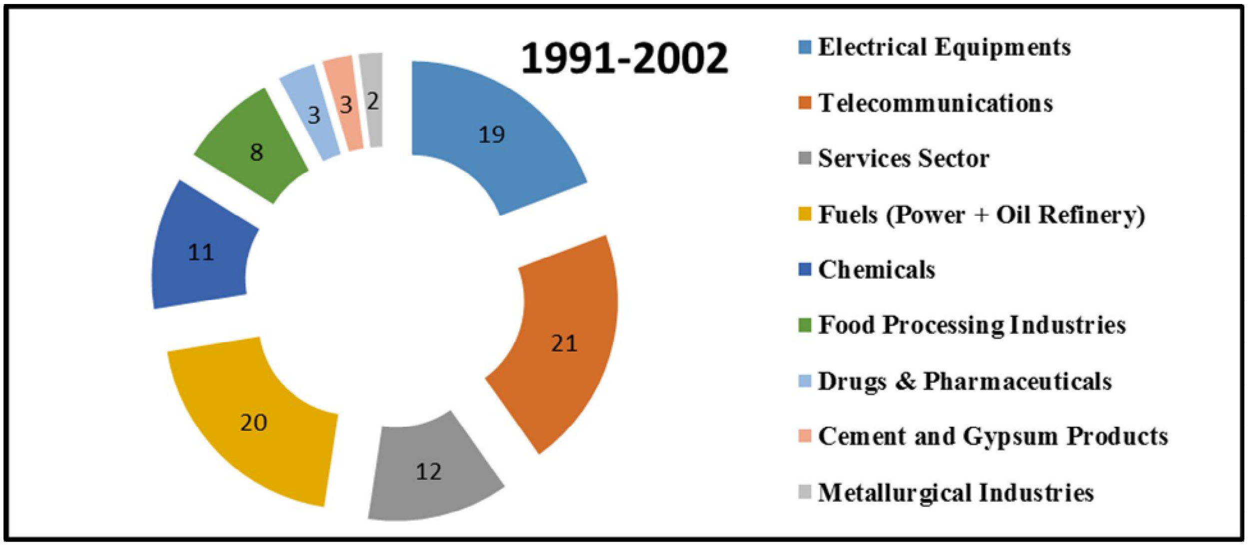


Figure 3: Percentage Share of Top Sectors - FDI Equity Inflows (Cumulative, April 2003 to March 2012)

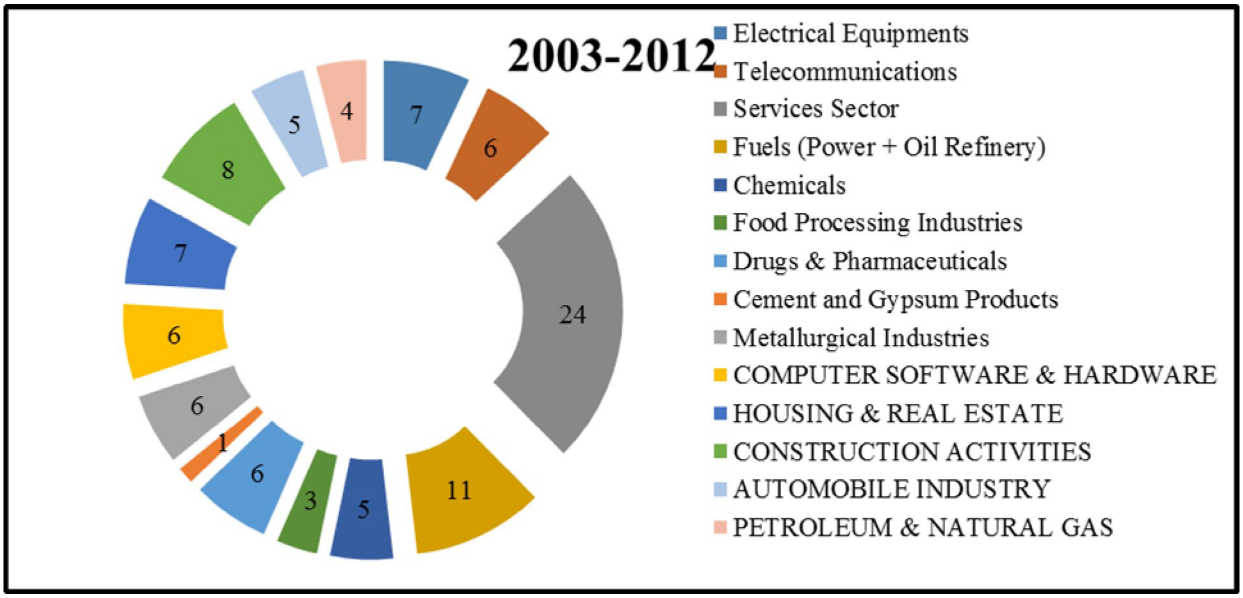


Table 3: Percentage Share of Sector-Wise Foreign Direct Investment Inflows in India during April-2000 to February-2013

Sl. No.	Name of Sectors	Foreign Direct Investment (` Billion)	Percentage Share in Top 33 Sector	Percentage Share in Total Investment	Percentage Share in All India GDP (2012-13)
(1)	Services Sector	1,718	20.91	19.34	3.12
(2)	Construction Activities	1,007	12.25	11.33	1.83
(3)	Telecommunications	577	7.02	6.49	1.05
(4)	Computer Software & Hardware	527	6.41	5.93	0.96
(5)	Drugs & Pharmaceuticals	488	5.94	5.49	0.89
(6)	Chemicals*	404	4.91	4.55	0.73
(7)	Automobile Industry	379	4.61	4.26	0.69
(8)	Power	361	4.39	4.06	0.66
(9)	Metallurgical Industries	344	4.19	3.87	0.63
(10)	Hotel & Tourism	330	4.02	3.72	0.60
(11)	Petroleum & Natural Gas	248	3.02	2.79	0.45
(12)	Trading	181	2.20	2.03	0.33
(13)	Electrical Equipments	145	1.77	1.64	0.26
(14)	Information & Broadcasting **	145	1.76	1.63	0.26
(15)	Cement And Gypsum Products	118	1.43	1.33	0.21
(16)	Non-Conventional Energy	125	1.52	1.41	0.23
(17)	MM&E Industries	105	1.27	1.18	0.19
(18)	Industrial Machinery	109	1.33	1.23	0.20
(19)	Construction	97	1.18	1.09	0.18
(20)	Consultancy Services	96	1.17	1.08	0.17
(21)	**Food Processing Industries**	**86**	**1.05**	**0.97**	**0.16**
(22)	Ports	67	0.82	0.76	0.12
(23)	Hospital & Diagnostic Centres	74	0.90	0.83	0.13
(24)	**Agriculture Services**	**76**	**0.93**	**0.86**	**0.14**
(25)	Textiles[A]	57	0.69	0.64	0.10
(26)	Electronics	55	0.66	0.61	0.10
(27)	Sea Transport	55	0.67	0.62	0.10
(28)	Fermentation Industries	51	0.62	0.57	0.09
(29)	Rubber	55	0.67	0.62	0.10
(30)	Mining	43	0.53	0.49	0.08
(31)	Paper And Pulp[B]	40	0.49	0.46	0.07
(32)	Ceramics	22	0.27	0.25	0.04
(33)	Education	33	0.40	0.37	0.06
TOTAL		**8,218**	**100.00**	**92.48**	**14.93**
GRAND TOTAL		**8,886**			**16.15**
All India GDP (2012-13)		**55,034**			

*Note:*Other Than Fertilizers, **Including Print Media, A-Including Dyed, Printed and B-Including Paper Products. (MM&EI) Miscellaneous Mechanical & Engineering Industries*

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

FDI Inflows in Different agriculture Sector:-

(1) FDI Inflows to food processing industries:

Food processing industry is a predominant segment in the Food Industry in India and accounts for 32 percent share in the industry. The food processing industry comprise of 2 percent of fruits and vegetables and 15 percent of processed milk. Important initiatives by the Indian government have led to significant growth in FDI Inflows to Food Processing Industries. While FDI Inflows to Food Processing Industries are estimated to reach USD 325.93 million by 2009, a target of USD 25.07 billion worth of FDI Inflows to Food Processing Industries has been set to be achieved by 2015.

The food processing industry contributes to 6.3 percent of the Gross Domestic product of India, 19 percent to the Indian industry, and 13 percent to the export production. The export production in food processing sector has increased from USD 6.98 billion in 2002-03 to USD 20.51 billion in 2006-07, accounting for a phenomenal rise of 193.83 percent. The government of India has set a target of USD 25.07 billion of FDI Inflows to Food Processing Industries to be achieved by 2015 which will increase India's global food trade from 1.6 percent to 3 percent along with a rise in perishable processed food items from 6 percent to 20 percent. The food processing industry is expected to witness a growth of 10 percent in the recent years to come.

Government of India gave an estimation of Foreign Direct Investments (FDI) Inflows to reach USD 325.93 million by 2009 keeping in view the rising demand among the corporate players in Indian retail industry

- A number of active measures have been taken up by the government to ameliorate the food processing units in terms infrastructure, human resource, and research and development
- 100 percent 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.
- This legislation has also allowed a 100 percent tax deduction on profits for five years and 25 percent for the next five years especially to the upcoming agro-processing industries.
- Most of the items in food processing sector are exempted from license agreement excepting those which are kept in reserve for the small-scale sectors.

(2) FDI Inflows to Agriculture Services:

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. 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. Only in Tea sector, 100% FDI is allowed, including, plantations of tea. This requires Government 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. 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 in the above-mentioned sector. FDI inflows to agriculture services also facilitated growth of other allied areas like Irrigation, Roads, Housing, Water Supply, Electrification, and Telecommunication Connectivity.

(3) 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. 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 sectors associated with it.

Sectors where FDI is Banned
1. Retail Trading (except single brand product retailing); 2. Atomic Energy; 3. Lottery Business including Government / private lottery, online lotteries etc; 4. Gambling and Betting including casinos etc.; 5. Business of chit fund; 6. Nidhi Company; 7. Trading in Transferable Development Rights (TDRs); 8. Activities/sector not opened to private sector investment; 9. Agriculture (excluding Floriculture, Horticulture, Development of seeds, Animal Husbandry, Piscicultureand cultivation of vegetables, mushrooms etc. under controlled conditions and services related to agro and allied sectors) and Plantations (Other than Tea Plantations); 10. Real estate business, or construction of farm houses; Manufacturing of Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco or of tobacco substitutes.

Opportunities and Challenges:

The positive outcomes of the policy are as follows:

1. Permitting foreign investment in agricultural retailing is likely to ensure adequate flow of capital into rural economy in a manner likely to promote the welfare of all sections of society, particularly farmers and consumers. It will bring about improvements in farmer income and agricultural growth and assist in lowering consumer price inflation.

2. Due to lack of adequate infrastructure facilities and lack of proper storage facility farmers are forced to sell their products at very low price which sometimes cannot even cover their cost of production. It is assumed that now farmer could be sell their all producer.

3. Since the inflow of FDI in retail sector is bound to pull up the quality standards and cost competitiveness of Indian farmers. It, therefore, seems that FDI in agricultural retailing has the potential of sustaining agricultural growth.

4. This is expected to boost the country’s domestic manufacturing industry that foreign retail companies have to be source at least 30 per cent of the commodities from small and micro industries.

5. The minimum investment limit has been set at US$ 100 million for foreign companies, out of which at least 50 per cent must be used to improve transportation, distribution, storage, and packaging facilities, and develop farm allied infrastructure.

6. Due the FDI inventiveness, the concept of the middleman, which has dominated farmers in India for decades, can be eradicated and farmers can now get the full benefit of their produce.

7. Foreign companies are expected to take some constructive steps for the creation of supply chain. Entry of foreign players, storage and refrigeration infrastructure will improve significantly.

8. Job opportunities in sectors such as transportation, packaging, agriculture processing and such like are expected to flourish. According the Government of India, FDI in retail sector is capable of generating approximately 4 million direct jobs and around 5 to 6 million indirect jobs within a span of 10 years.

The FDI policy also comes with its share of disadvantages of the policy are:

1. Small retailers and owners of Pop and Mom stores might suffer, as the large retailers like Wal-Mart and Tesco are likely to alleviate out these small and micro-level shop owners.

2. There might be job losses in the manufacturing segment. Though the government has capped the sourcing of commodities from the domestic market at 30 per cent, the rest of the 70 per cent can be bought from the foreign markets.

3. The Indian retailers might not be able to cope up with the increasing competition from the foreign retailers who are well prepared with better infrastructure and management procedure. Slowly this might lead to the replacement of the Indian retailers to a considerable extent.

4. As the foreign brands will be available at a larger rate, the consumer's inclination towards international brands might affect the country's in-house brands.

5. According to the non-government cult, FDI will drain out the country's share of revenue to foreign countries which may cause negative impact on India's overall economy.

6. Now Wall mart is the single buyer and play as a monopolist and it will be force to farmer to reduce the price of their produce.

7. It is said that FDI might provide employment opportunities, but it is argued that it cannot provide employment opportunities to semi-illiterate people. This argument gains more importance because in India, large numbers of semi-illiterate people are present.

8. Though Government has predetermined that 30 per cent procurement should be from Indian sources, this may get diluted over the years. The remaining 70 per cent procurement from cheaper countries will make the people run towards that stuff and the 30 per cent supply from Indian small industries will have their own death, unable to compete with low price Chinese goods.

Walmart Lobbying and Political Corruption in Retail FDI:

Recent reports presented by Walmart to US Govt. revealed that it spend Rs. 125 cr in lobbying Indian lawmakers to get access to Indian market. These facts are serious; if Govt. is doing all this in favour of bribery and money then results might not be good as it is projected. Since Walmart will continue to mould things in their favour by lobbying and bribery as political corruption is well known in Indian politics. They can be purchased easily.

Conclusion and suggestions:

India has a huge consumer and thus very attractive place for trading of its loose foreign trading policy. Use nations for bringing technology and stable system with culture in India, but control should be in our hand. For instance govt has invested 1000 crore of public fund inviting Walmart, what when Walmart fail all the govt investment goes to ashes, instead of govt I will suggest private branded firms would invest money if they are really looking it as a business, and I believe private firms could handle situations in better way as govt always fails. Secondly FDI in retail in India is always preferred by the developed countries to increase their productivity not by developing countries, our politicians political bill is limited to get money only and nothing else, so FDI is not good for the time being, India again retain its credibility and stood on his foot, then FDI is good else its just solace to support.

Global experiences show that FDI in retail can sometimes negatively impact consumers and economy if corporate retailers adopt anti-competitive practices such as rapacious pricing. In India, the Competition Act 2002 has provisions to check exploitation of dominant position by major players, including predatory pricing. In the Act, dominant position is defined as “a position of strength, enjoyed by an enterprise, in relevant market, in India” (The Competition Act, 2002, No.12 of 2003, pp. 9). To protect the interest of consumers, the Act can be further strengthened. For instance, the dominant position can be clearly specified, in terms of the market size of the retailers, as has been done in countries like Australia. The regulatory body and the Govt. have to take care that due to entry of FDI in retail the market will not become a high concentration in the country and can make regulation to prevent foreign retailers like Wal-Mart from having a high concentration of business in the country.

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Annexure I

Table 4: Sector-wise Specific Limits of Foreign Direct Investment Inflow in India

Sectors	FDI Cap/Equity	Entry Route
A. Agriculture 1. Floriculture, Horticulture, Development of Seeds, Animal Husbandry, Pisciculture, and Aquaculture, Cultivation of vegetables & mushrooms and services related to agro and allied sectors.	100%	Automatic
2. Tea sector, including plantation	100%	FIPB
(FDI is not allowed in any other agricultural sector /activity)		
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. Defence production	26%	FIPB
4. Hazardous chemicals and isocyanates	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.	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. Commodity Exchanges	49% (FDI+FII) (FDI 26 % FII 23%)	FIPB
6. Insurance	26%	Automatic

7. Petroleum and natural gas : a. Refining	49% (PSUs). 100% (Pvt. Companies)	FIPB (for PSUs). Automatic (Pvt.)
9. 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%.

Note: FIPB = Foreign Investment Promotion Board and FII = Foreign Institutional Investor.
Source: Reserve Bank of India, GOI, http://www.rbi.org.in