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FOREIGN DIRECT INVESTMENT AND INDIAN AGRICULTURE: ITS PROS AND CONS

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ABSTRACT

FDI has become one of the important boosts to promote the progress of developing countries. In reality FDI helps to bring technology, create employment opportunities, increases productivity and integrating developing countries into the global market place. In that process raising stranded of living and poverty reduction is possible in the country concerned. Thus, FDI is inevitable inclination in every field of the country in recent years. Agriculture is one of the prominent sector in Indian economy which contributes more than 19% of GDP and 65% employment in India. Performance of Indian economy depending upon the improvement in the agriculture sector. Thus, boosting the agriculture is the need of the hour.This paper tries to analysis merits and demerits of FDI for agriculture in Indian context. In the midst of globalization, positive changes in any sector of the economy is the welcoming move. Indian agriculture and the population depending on it, are always important to India. Thus FDI to promote agriculture is certainly a significant step. However, after the reformation in1991, agriculture sector opened for foreign investment and was also followed by better technology, better seeds and thus rapid growth.

KEW WORDS: ***Foreign Direct Investment,Agriculture, capital, inflow, globalization.***

I.INTRODUCTION

FDI has become one of the important boosts to promote the progress of developing countries. In reality FDI helps to bring technology, create employment opportunities, increases productivity and integrating developing countries into the global market place. In that process raising stranded of living and poverty reduction is possible in the country concerned. Thus, FDI is inevitable inclination in every field of the country in recent years.

Foreign Direct Investment, or FDI, is a type of investment that involves the injection of foreign funds into an enterprise that operates in a different country of origin from the investor. Investors are granted management and voting rights if the level of ownership is greater than or equal to 10% of ordinary shares. Shares ownership amounting to less that the stated amount is termed portfolio investment and is not categorized as FDI. This does not include foreign investments in stock markets. Instead, FDI refers more specifically to the investment of foreign assets into domestic goods and services. FDIs are generally favored over equity investments which tend toflow out of an economy at the first sign of trouble which leaves countries more susceptible to shocks in their money markets.

Agriculture is one of the prominent sector in Indian economy which contributes more than 19% of GDP and 65% employment in India. Performance of Indian economy depending upon the improvement in the agriculture sector. Thus, boosting the agriculture is the need of the hour.This paper tries to analysis merits and demerits of FDI for agriculture in Indian context.

II.OBJECTIVES

1. To study the importance of FDI to Indian agriculture.
2. To study the challenges faced by FDI in Indian agriculture.
3. To know the opportunities to FDI in Indian agriculture.

III. FDI AND INDIAN AGRICULTURE

Indian agriculture has been facing insecurity and financial problem since a long period of time.

People engaged in agriculture, are migrating in large number to cities in search of employment opportunities. The cultivated areas are gradually becoming barren lands without any crops. In such condition FDI can be one supportive factor to promote Indian agriculture. Here it is better discuss about to the capital inflow in terms of foreign direct investment in total and particular to agriculture of India.

Table No.1.FDI to India and Percentage Share in Agriculture sector.

year	Total FDI (In Billion)	Annual Growth rate of FDI	Total FDI as percentage of Agriculture GDP	Total FDI as percentage of Total GDP
2000-01	267	-	-	-
2001-02	319	19.4	5.8	1.3
2002-03	201	-37.0	3.9	0.8
2003-04	628	212.7	11.1	2.3
2004-05	581	-7.6	10.3	2.0
2005-06	688	18.5	11.6	2.1
2006-07	668	-2.9	10.8	1.9
2007-08	1744	161.1	26.6	4.5
2008-09	351	-79.9	5.4	0.8
2009-10	1014	188.9	15.7	2.2
2010-11	1823	79.8	25.7	3.7
2011-12	1888	3.6	25.9	3.6

Sources: handbook of Statistics on Indian Economy,RBI 2012.

Note.GDP as a constant price,2004-05 bases.

As per the table no.1.in absolute term total FDI in India has been increasing in most of the years in the last several years. It was Rs.267 billion in 2000-01 it has increased to Rs.668 billion in 2006-07 and further increased to Rs.1888 billion in 2011-12. Total FDI as percentage of agriculture GDP is also indicated increasing tendency, it was 5.8% in 2001-02, it has increased to 10.8% in 2006-07 and further to 25.9% in 2011-12.Thus as per the available data inflow of foreign capital in terms of direct investment, overall as well as particularly to agriculture has been increasing over the period of time.

III.1.Foreign Direct Investment to Indian Agriculture: Its pros:

No doubt capital inflow to any country boost their development in different dimensions. So Indian agriculture is not the exception to that. here we can list a few benefits of FDI to Indian agriculture sector.

1. Permission to Foreign direct investment in agricultural transaction is expected to guarantee adequate flow of capital into rural economy in a way likely to promote the wellbeing of all the sections of society, largely farmers and consumers. It will bring about improvements in farmer income and agricultural development and help in lowering consumer price inflation.
2. There is a lack of adequate infrastructure as well as proper storage facility in Indian agriculture because of that farmers of the country are forced to sell their products at very low price which sometimes cannot even cover their cost of production. But if there is FDI which helps to create sufficient such facilities and infrastructures so that peasants of the country could get reasonable price for their products.
3. Since the increase in the inflow of Foreign Direct Investment in the sector which bounds up the quality standards and cost competitiveness of Indian farmers. Such tendency lead to opportunity for sustainable agriculture development
4. Because of the FDI initiatives, the idea of the middleman, which has ruled farmers in India for several decades, can be eradicated and farmers can now get the full benefit of their produce.
5. Foreign companies are likely to take some constructive steps for the creation of supply chain. Entry of foreign players, storage and refrigeration infrastructure will improve significantly.
6. Employment opportunities in some sectors such as like agriculture processing, packaging and transportation are expected to prosper.
7. Technical assistance will improve. Technical developments in areas like electronic weighing, billing, barcode scanning etc. could be a direct consequence of foreign companies opening retail shops in India.
8. It is possible to promote R&D in agriculture sector for energy savings, bring new seeds, preserve and protect environment, etc which could increase yield as well as protect the human being.
9. The concept of contract farming would come of age in India. As a concept, Contract farming ensures implementation of concepts like Agri Credit, Insurance, development in agriculture etc.
10. Small farmers and agricultural workers would be more motivated to team up with co-operatives which would allow mechanization of land and multiple cropping which was not possible for technical difficulties

Thus FDI brings to a number of new features to Indian agriculture sector .

III.2.FDI to Indian Agriculture: Its Cons:

Definitely, FDI brings a number of positive changes in Indain agriculture, however, this move is not free from demerits. We can summarize as follows.

1. FDI is harm full to Small farmers because entry of big foreign companies in India would place the farmers completely under their control. FDI are proving to be extremely detrimental to the farmer's interests.
2. Risk of reduction in job opportunities. The opening of big foreign chains like Wal-Mart, Carrefour etc. are not generating any jobs in reality in India. At best the jobs are moving from unorganized sector to organized sector but their number remained the same or lesser but not more.
3. In a monsoon dependent Indian agriculture, FDI may move out if there are two or three consecutive bad seasons and then the contract farmers could be left stranded and have to depend on MSP offered by government
4. In contract farming, farmers may lose out too. Some companies indulges in monopolistic practices and extract any surplus from farmers. Farmers in many parts of India are illiterate and know little about market conditions. And

companies designs the contract in such a manner that favors them at the cost of farmers. However this can be eliminated with proper governmental regulatory oversight.

5. As the foreign brands are available at a larger number at low price, the consumer's inclination towards international brands affects the country's in-house brands.

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

IV.FDI in Indian agriculture segment and the latest expansions are:

1. Up to 100% FDI is permissible under the automatic path in activities such as increase of seeds, animal husbandry, pisiculture, farming of vegetables and mushrooms under structured settings and services associated to agro and associated sectors.

2.Up to 100% FDI with government's consent is allowed in plantation of tea provided conditions of disinvestment of 26% equity of the corporation is in hands of the Indian partner or Indian public within 5 years. Further, permission from state government is must, in case of any future land use.

3. Beyond the points mentioned above, FDI is not permitted in any other agricultural segment / activity.

4.In India up to 100% FDI is allowed in the fertilizers industry by the government of India.

5.It has been further argued that India should open up its retail sector for further development of the agriculture sector. The supporters of foreign direct investment in retail assume that permitting 100% FDI in retail would lead to dairy and agricultural uprising in the country.

V.CONCLUSION

In the midst of globalization, positive changes in any sector of the economy is the welcoming move. Indian agriculture and the population depending on it, are always important to India. Thus FDI to promote agriculture is certainly a significant step. However, after the reformation in1991, agriculture sector opened for foreign investment and was also followed by better technology, better seeds and thus rapid growth. But the growth was confined to certain areas which led to increase in quality in the country (A.Sawant-2014). The interest of the investors in the allied sectors of the agriculture aided the export of goods which perused a greater demand for them. However the production of food crop cultivation declined for those products which have comparatively less demand in the international market. Any how, the overall growth in the agricultural sector has been immense compared to before liberalization. Now India stands as one of the leading exporters of the agricultural goods in the world (G.Agarwal and M.A Khan-2011)

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