Globus An International Journal of Management & IT
A Refereed Research Journal
Vol 10 / No 1 / Jul-Dec 2018 ISSN: 0975-721X

IMPACT OF AGRICULTURE AND FDI INFLOWS IN DIFFERENT SECTOR

*Dr. K.P. Jayant

Abstract

This paper deals with the 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.

Keywords: FDI, Agriculture.

Introduction

Agriculture plays a vital role in the Indian economy. Over 70 per cent of the rural households depend on agriculture as their principal means of livelihood. Agriculture, along with fisheries and forestry, accounts for one-third of the nation's GDP and is its single largest contributor.

The total Share of Agriculture & Allied Sectors (Including agriculture, livestock, forestry and fishery sub sectors) in terms of percentage of GDP is 13.9 percent during 2013-14 at 2004-05 prices. [As per the estimates released by Central Statistics Office] Agricultural exports constitute a fifth of the total exports of the country. In view of the predominant position of the Agricultural Sector, collection and maintenance of Agricultural Statistics assume great importance.

The country is also the largest producer, consumer and exporter of spices and spice products in the world and overall in farm and agriculture outputs, it is ranked second. From canned, dairy, processed, frozen food to fisheries, meat, poultry, and food grains, the Indian agro industry has plenty of areas to choose for business.

The Department of Agriculture and Cooperation under the Ministry of Agriculture is the nodal organisation responsible for the development of the agriculture sector in India. Under it, several other bodies such as the National Dairy Development Board (NDDB) work for the development of other allied agricultural sectors.

The research on this subject has so far been largely devoted to factors determining the FDI and policy formulations in response to those factors. Until 1960s, FDI was modeled as a part of neoclassical capital theory and the basic motive behind the movement of this capital into a host country was search for higher rate of returns. Over the period, with growing realisation the motives for capital movement have been far more diverse than mere search for higher returns, there has been a plethora of theoretical and empirical research directed towards identifying factors determining different types of capital flows. It was the insight of Hymer (1960) who by differentiating direct investment from portfolio investment created basis for studies on factors determining the FDI flows. Hymer highlighted certain facts and evidences[2] on the basis of which he concluded that the nature of the direct and portfolio investment differs and therefore same theories cannot be applied to both

* *Associate Professor, Department of CSE, IIMT University, Meerut, India*

types of investment. The key feature that Hymer identified for motivation of FDI was the level of control which a firm of home country gets through direct investment in host country. He also stressed upon market imperfections such as the ownership of knowledge not known to rivals, existence of differentiated products giving profit advantage to a firm investing abroad, problems related to licensing the product, etc., for supporting FDI decisions. However, the literature argues that his theory over-emphasised the role of structural market failure and ignored the transaction cost side of market failure (Dunning and Rugman, 1985). Moreover, his theory did not explain the locational and dynamic aspect of FDI.

Review of Literature

DIPP, et.al. (2010) Foreign direct investment (FDI) in the retail sector in India is restricted. In 2006, the government eased retail policy for the first time, allowing up to 51 per cent FDI through the single brand retail route (see Section 2 for a classification of organized retail in India). Since then, there has been a steady increase in FDI in the retail sector, and the cumulative FDI in single-brand retail stood at $195 million by the middle of 2010.

Shaha. N.Y. and M.A. Shinde (2013), in their paper have analysed that small retailers will not be crowded out, but would strengthen their market positions by modernizing their working. Growing economy and increasing purchasing power would compensate the loss of market share of the unorganized sector retailers. There will be initial and desirable displacement of middlemen involved in the supply chain of farm produce, but they would be absorbed by increase in the food processing sector induced by organized retailing.

Singal. R., Garg. A. and Singla, S. (2012) have found in their paper that Retailing industry becoming one of the most dynamic sectors in India with numerous players jumping into this market makes it competitive and lucrative. And it is also becoming a major industry by creating millions of employment opportunities to people directly and indirectly is greatly admired.

Khare. M. (2013) in his study “Foreign Direct Investment in Indian Retail Sector - A SWOT Analysis” thought that the Government of India must properly discuss the pros and cons of allowing 51% FDI and have a law in place to control unfair competition. Then the FDI Bill will be given definitely a positive impact on the retail industry and the country by attracting more foreign investment.

Jain P. (2014), in her study found that FDI in India's retail sector has both advantages as well as disadvantages. It is advantageous to the government as the tax revenue collected can be used for infrastructure development. It will also provide job opportunity which is a crucial factor for developing countries.

Abhishek Vijaykumar Vyas (2015) Foreign Direct investment plays a very important role in the development of the nation. Sometimes domestically available capital is inadequate for the purpose of overall development of the country. Foreign capital is seen as a way of filling in gaps between domestic savings and investment. India can attract much larger foreign investments than it has done in the past.

Central Government Initiatives

The Department of Agriculture & Cooperation under Ministry of Agriculture has entered into MOUs/Agreements with 52 countries including United State of America. In addition, Department of Agriculture Research & Education (DARE) and Department of Animal Husbandry, Dairying & Fisheries (DAHD&F) under Ministry of Agriculture have also entered into MOUs/Agreements with other countries taking the total number of countries to 63. Agreements with these countries provide better agricultural facilities due to cooperation in areas such as Research and Development, Capacity Building, Germ-Plasm Exchange, Post Harvest Management, Value Addition/ Food Processing, Plant Protection, Animal Husbandry, Dairy & Fisheries and also help in enhancing bilateral trade.

The Government of India realises the importance of agriculture to the development of this nation and hence has adopted several initiatives and programmes for this sector’s continuous growth. Notable among them are Rashtriya Krishi Vikas Yojana (RKVY); National Food Security Mission (NFSM); National Horticulture Mission (NHM); Gramin Bhandaran Yojana; Integrated Scheme of Oilseeds, Pulses, Oil palm, and Maize (ISOPOM), etc.

Some of the recent major government initiatives in the sector are as follows:

- The National Dairy Development Board (NDDB) has announced 42 dairy projects with a financial outlay of Rs 221 crore (US$ 35.47 million) in order to boost milk output in the country and increase per animal production of milk.
- The Government of India has planned to invest Rs 50,000 crore (US$ 8.02 billion) to revive four fertilizer plants and set up two new plants to produce farm nutrients.

- The Ministry of Food Processing Industries has taken some new initiatives to develop the food processing sector which will also help to enhance the incomes of farmers and export of agro and processed foods among others.
- Israel has increased its cooperation with Indian agriculture, helping farmers multiply their income with better practices, yields and choosing the right crops or vegetables in a success story that is boosting bilateral ties that have strengthened under the Government of Mr Narendra Modi, Prime Minister of India.
- The Government of Telangana has allocated Rs 4,250 crore (US$ 682.31 million) for the first phase of farm loan waiver scheme. The scheme is expected to benefit 3.6 million farmers who had taken loans of Rs 100,000 (US$ 1,605.46) or below before March 31, 2014.

Conclusion

In the recent past, various economists, policymakers, academicians and corporate researchers suggested that India's regulatory policies in terms of procedural delays, complex rules and regulations related to land acquisition, legal requirements and environmental obligations might have played a role in holding the investors back from investing into India. The uncertainty created by the actions taken by policy makers might have led to unfriendly business environment in India. In this context, some of the statements and observations made in various reports are detailed below:

"Infrastructure projects in India carry significant risks associated with meeting government regulation, environment norms and legal requirements; inadequate user charges; and execution and construction risks".

"Procedural delays are bothering nearly all of the respondents with almost 93 percent of the respondents indicating this issue to be 'quite to very serious'. The time consuming systems and procedures to be complied with, the bureaucratic layers to be dealt with and the multiple bodies from which clearances are to be obtained- all add up substantially to the transaction cost involved and take up a lot of management time thus making it an issue of serious concern for the investors".

Identification of 'environment clearances, land acquisition and rehabilitation' as the key issues that delayed large investment projects in the steel industry**.**

"The Posco project (still in the pipeline) involves wider issues: Rs. 52,000 crore in foreign direct investments that will be seen as a test case for India's ability to accommodate big-ticket capital from abroad. The mining project by Vedanta in the same state (Orissa) has already been stalled on environment grounds".

"When hard choices need to be made about large projects that are considered central to economic growth but are detrimental to the environment. Let us all accept the reality that there is undoubtedly a trade-off between growth and environment".

"Apart from hundreds of industry projects, he (environment Minister) has held up construction of a second airport in the commercial hub of Mumbai and dozens of road and dam projects await clearance".

To ascertain these assertions which seek to imply that probably relatively more restrictive policy environment in India vis-à-vis other countries might have caused sluggishness in FDI flows, following section undertakes an econometric exercise using data of select EMEs.

References

1. Singal, R., A. Garg, S. Singla and I.E.T. Bhadal, 2012. FDI in Retail Sector in India. International Joumnal of Latest Transactions in Engineering and Science (IJLTES), 1(1): 52-58.
2. Khare, D.M., 2013. Foreign Direct Investment in Indian Retail Sector-A SWOT Analysis. AISECT University Journal, II(IV).
3. Jain, P., 2014. Foreign Direct Investment in Indian retail sector, International Journal of Advance Research in Computer Science and Management Studies, 1(4).
4. Commodity Research, Food and Agribusiness, Commodity News and Analysis (in English) (based in India).
5. Agriculture Commodity Market News - Agri Commodity News, Rates, Daily Trading Prices, The Trade News Agency NNS - Daily commodity prices of Agricultural and Agri based Commodities from different Markets of India. Indian Agriculture Industry business to business (b2b) News and Directory (in English) (based in India).
6. Basker, Emek, 2007, "The Causes and Consequences of Wal-Mart's Growth." Journal of Economic Perspectives, Vol. 21, No.3, pp. 177-198.
7. Shaha, N.y. and M.A. Shinde, 2013. FDI in Indian Retail Sector: A Critical Analysis. Tactful Management Research Journal, 1(5): 1-5.