

# The Impact of Foreign Direct Investment on Indian Agriculture

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**Abstract**—Agriculture plays an important role in economic development of India. The contribution of agricultural sector to national Gross Domestic Product (GDP) has continued to decline over the years, while that of other sectors. Presently, agriculture contributes 19% per cent of India's Gross Domestic Product (GDP). Agriculture is the main part of the Indian economy as it forms the backbone of rural India which inhabitants more than 70% of total Indian population. Most of the rural population in India depends on agricultural sectors for employment and livelihood. 100% FDI is also permitted in tea sector, FDI is not allowed in any other agricultural sector/ activity. The present study is based on secondary data collected through different sources. The objective of the present study is to analyze the foreign direct investment on Indian agriculture. The paper focuses on the FDI and agriculture sector in Indian economy and compares the FDI in agriculture sector with other sectors in India. This paper also tries to find out the scenario and impact of Foreign Direct Investment on Indian agriculture. It also shows that there has been a remarkable increase in FDI inflows in agriculture sector in India during the year 2000 to 2015.

**Keywords:** Foreign Direct Investment, Agriculture, Indian Economy.

## 1. INTRODUCTION

In India, agriculture is an important sector of the Indian economy and accounts for almost 19% of Indian gross domestic products (GDP). The agriculture sector on average has affixed a growth rate of 4.1% over the Eleventh Five Year Plan (2007–2011) and 1.4% and 4.7% in 2012 and 2013 respectively. With the government showing expect of sustaining a 4% growth rate in agriculture, a second green revolution is now proposed. Focus would shift to technology-driven measures to improve agriculture productivity. Greater emphasis would now be placed on making investments to modernize infrastructure as well as set up new facilities to make agriculture more productive and profitable on a global level. (Indian agriculture budget, 2014– 2015), ([www.aranca.com](http://www.aranca.com)). Agriculture is the main part of the Indian economy as it forms the backbone of rural India which inhabitants more than 70% of total Indian population. Most of the rural population in India depends on agricultural sectors for employment and livelihood. The agriculture industry in India is develop at a great pace and is expected to grow many

folds in the near future. After globalization every country in Asia welcome foreign direct investments in many sectors and it is growing its limits steadily. India is not an exception, like all other countries India also allowed FDI in various sectors including agriculture. FDIs have been playing an important role in promoting economic growth, sustainable development, triggering technological transfer and creating employment opportunities. Increased economic growth reduces poverty and embossed the living standards. (Srujana, 2014). India holds the second largest agricultural land (179.9 million hectares) in the world (IBEF, 2014) 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. No FDI / NRI / OCB are allowed in the Indian Agriculture sector. Only in Tea sector 100% FDI is allowed, including estate of tea. This requires Government of India approvals. To improve agriculture productivity and consolidate it with manufacturing and services sector, there is a strong need to promote FDI inflow in agriculture sector in Indian economy. FDI in agriculture sector raises investment in agriculture sector of the host country and leads to increase in sustainable development, employment, income and savings. It also provides infrastructure, capital and managerial skill into the sector. The present study is analyzed the foreign direct investment and agriculture in India.

## 2. REVIEW OF LITERATURE

FDI is considered as an important tool for develop economies like India, as it is expected to bring latest technology and enhance production capacity of the economy. To justify the need of present study, following literature is given below.

Burfisher et. al. (1992) analyzed the impact of FDI in Mexico and they revealed that agricultural production has increased by 8% and this further increase the demand for production. FDI approach through proper mechanism in the rural areas can reduce the poverty in rural areas.

Aaron (1999) FDI has long term impact on development of a country not only a source of capital but also enhance competition through transfer of technology, infrastructure,

raising productivity and generating new employment opportunities.

According to UNCTAD (2009) FDI has potential to generate employment, raise productivity, transfer technology, enhance export and continue to the long term economic development of the world’s developing countries.

Hooda (2011) FDI and Indian Economy concluded that that FDI enhance the financial position of India by providing a sound base for economic growth and development of the country. The finding of the study reveals that, FDI can play an important role in promoting economic growth, raising a country’s technological level, and creating new employment in developing countries.

Singh and Walia (2015) examined that the agriculture productivity and streamline it with manufacturing and services sector, there is a strong need to adopt many measures, out of which, promote FDI inflow in agriculture sector in Indian economy. The finding of the study, understand the role of FDI in agricultural sector & in overall progress of the economy.

**3. OBJECTIVES OF THE STUDY**

The present study attempts to achieve the following specific objectives, which are given below.

1. To discuss the foreign direct investment on Indian agriculture.
2. To analyze the FDI and agriculture sector in Indian economy.
3. To compare the FDI in agriculture sector with other sectors in India.

**4. RESEARCH METHODOLOGY**

The study is based on secondary data collected through various sources like the report of the Ministry of Commerce and Industry, the department of Industrial promotion and policy (DIPP), the government of India, Centre of Monitoring Indian Economy (CMIE), RBI, and Journals. Information has also been taken from World development reports and World Investment Reports. The available data has been processed and presented in the form of different suitable tables. The main objective of present study is to analyze the FDI in agriculture sector in Indian economy.

**5. FDI INFLOW IN AGRICULTURE SECTOR (FROM APRIL, 2000 TO 2015, INDIA)**

**Table 1.1**

Sector	Amount in Rs. (crore)	Amount in (US\$) Million	% Age of Total Inflows
Food Processing Industries	36,360.11	6,215.46	2.56
Agriculture services	8,625	1,744.02	0.72
Rubber Goods	9,445.03	1,722.64	0.71

Vegetables’ Oils and Vanaspati	2,861.12	541.65	0.22
Agriculture Machinery	2,127.62	413.93	0.17
Fertilizers	2,915.62	543.14	0.22
Tea and Coffee (Processing & Warehousing Coffee & Rubber)	497.78	108.41	0.04

Source: DIPP, Ministry of Commerce & Industry, GOI.

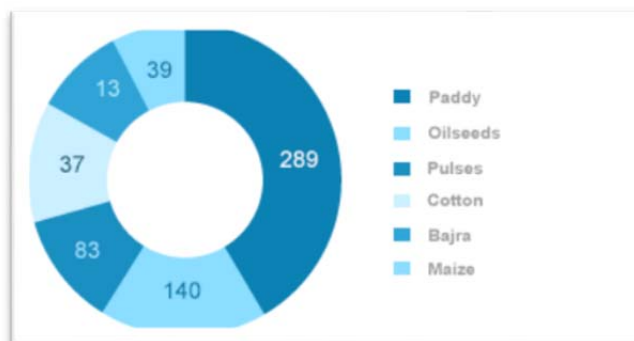
Table 1.1 reveals that agriculture sector FDI Inflows have been considered to find out the most favoured FDI sector in India. FDI data report, Food Processing Industries is the desired sector with highest FDI inflow of Rs 36,360.11 While Agriculture Services, Rubber Goods, Vegetable Oil, Agriculture Machinery and fertilizers are attracting Rs. 8415.71 crore, Rs 8,625, 9,445.03, 2861.12, 2,127.62, 2,915.62, 497.78 crore. Data shows that Food processing Industries are attracting highest FDI Rs. 36,360.11 crore than other agriculture sectors.

**6. INDIAN AGRICULTURE INDUSTRY ANALYSIS (FEBRUARY, 2015)**

**Growth (Kharif Season)** Gross Capital Formation in agriculture and allied activities has been growing at a compound annual growth rate (CAGR) of 9.7 per cent.



Area sown during Kharif Season in FY12.

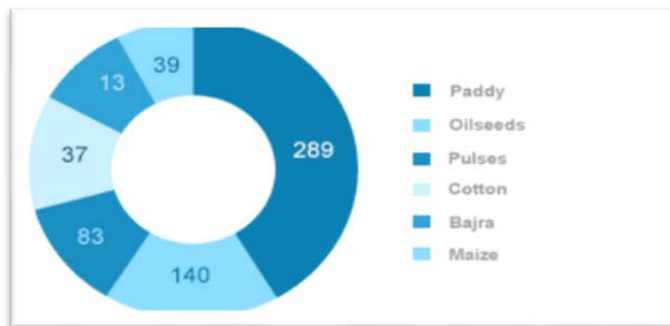


Source: www.ibef.org.in, The Economic Survey

**Growth (Rabi Season)** GDP of agriculture and allied sectors in India has been growing at a compound annual growth rate (CAGR) of 3.3 per cent.



Area sown during Rabi Season in FY 12.



Source: [www.ibef.org.in](http://www.ibef.org.in), The Economic Survey

Despite the focus on industrialisation, agriculture remains a dominant sector of the Indian economy both in terms of contribution to gross domestic product (GDP) as well as a source of employment to millions across the country. 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 forestry, accounts for one-third of the nation's GDP and is its single largest contributor. 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 country is also the largest producer, purchaser and exporter of spices and spice products in the world and overall in farm and agriculture outputs, it is ranked second. As per the 4th Advance Estimates of Production of food grains for 2013-14, total food grain production is estimated to be 264.77 million tonnes (MT). With an annual output of 130 MT, India is the largest producer of the milk in the world. It also has the largest

milk-producing animal population of over 118 million. However, milk yields per animal are among the lowest in the world. India is the biggest producer of pulses in the world at 19 MT and their biggest importer 3.5 MT. India is the second largest producer of sugar in the world and the government has purpose to increase the exports from 1.3 MT in 2013 to an average of 2 MT in 2014 and 2015. Exports from India are expected to reach US\$ 3 billion by 2016-17, on the back of creative marketing strategies, innovative packaging, strength in quality and a strong distribution network. In 2013-14 India achieved a record food grain production of 264 MT, beating the previous year's (2012-13) 257 MT, according to data provided by Department of Economics and Statistics (DES). Also, agricultural profitability has increased over the last decade with record increases in MSPs (minimum support prices) for agricultural produce for all covered crops. The procurement target for rice during Kharif Marketing Season (KMS) 2014-15 has been finalised as 30.05 MT. (Source: [www.ibef.org.in](http://www.ibef.org.in), The Economic Survey)

## 7. GOVERNMENT INITIATIVES (ROAD AHEAD)

Recognizing the importance of Agriculture Sector, the Government during the budget 2014-15 took a number of steps for sustainable development of Agriculture in India. The Indian agriculture sector is expected to grow with better momentum in the next few years owing to increase in investment in agricultural infrastructure such as irrigation facilities and cold storage. Factors such as reduced transaction costs, time, better port gate management and fiscal incentives will also contribute to this upward trend. Furthermore, the increased use of genetically modified crops is also expected to better the yield of the Indian farmers. The 12th Five Year Plan's estimates of expanding the storage capacity to 35 MT and the target of achieving an overall growth of 4 per cent will also go a long way in modifying the overall face of the Indian agriculture sector in the next few years. Exchange rate used: INR 1= US\$ 0.016 as on February 24, 2015 (Source: Economic Survey, Press Releases and Media Reports)

Fdi inflow in agriculture and other sectors in India (FROM APRIL, 2000 TO , 2015)

Table 2.1

S. No.	Sector	Amount of FDI Inflows (in crore) (in US\$)	% age of total inflows
1.	Services Sector	201,728.28 42,101.98	17.32
2.	Construction development	112,916.36 24,028.19	9.88
3.	Telcommunications	83,697.07 16,994.68	6.99
4.	Computer Software & Hardware	67,693.78 14,125.19	5.81
5.	Drugs & Pharmaceuticals	63,629.47 12,856.02	5.29

6.	Agriculture sector	62,832.28 11,289.25	4.64
7.	Automobile Industry	60,725.08 11,857.11	4.88
8.	Chemicals (other than fertilizers)	48,641.77 10,229.69	4.21
9.	Power	46,358.87 9,512.02	3.91
10.	Hotel & Tourism	40,198.41 7,774.03	3.20
11.	Petroleum & Natural Gas	31,650.29 6,519.53	2.68
12.	Food Processing Industries	36,360.11 6,215.46	2.56
13.	Miscellaneous Mechanical & Engineering Industries	20,572.50 3,98.17	1.62
14.	Hospital & Diagnostic Centres	14,565.34 2,793.72	1.15
15.	Education	5,649.81 1,071.50	0.44
16.	Railway Related Components	3,425.97 634.20	0.26
17.	Diamond, Gold Ornaments	2,904.78 569.14	0.23
18.	Air Transport (Including Air Freight)	2,720.46 562.65	0.23
19.	Commercial, Office & Household Equipments	1,516.81 309.34	0.13
20.	Retail Trading (Single Brand)	1,549.92 275.38	0.11

Source: As per DIPP's FDI data base

Agriculture Sector include Food Processing Industries, Agriculture Services, Rubber Goods, Vegetables Oils and Vanaspati, Agriculture Machinery, Fertilizers, Tea and Coffee Analysis. ( FDI Inflows in Agriculture sector 62,832.28) Table 2.1 shows the sector-wise FDI Inflows in India from April, 2000 to January 2015 in terms of US \$ and crore. According to FDI report, Service sector is the desired sector with highest FDI inflow of 201,728.28 crore. After service sector, Construction Development, Telecommunications and Computer Software & Hardware is the next preferred sector with 112,916.36 crore, 83,697.07 crore and 67,693.78 crore, etc. Table 1.1 shows that the agriculture sector inflow of 62,832.28 crore. As compare to FDI in agriculture sector with other sector, service sector is the desired sector with highest FDI inflows, after service sector the sixth highest FDI inflow sector in agriculture sector. According to DIPP report agriculture sector is highest FDI inflows (excluding service sector, construction development, telecommunication, computer software & hardware and drug sector) with other sectors.

**Agriculture Limits of FDI in India:** (FDI is not allowed in any other agricultural sector/activity)

Table 3.1

Sector	FDI Cap/ Equity	Entry Route
Floriculture, Horticulture, Development of Seeds, Animal Husbandry, Pisciculture, Aquaculture, Cultivation of Vegetables & Mushrooms and services related to agro and allied sectors.	100%	Automatic
Tea sector, including plantation	100%	FIPB

Source: Reserve Bank of India's Report's

FDI up to 100% is permitted, 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, 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 table, FDI is not allowed in any other agricultural sector/activity.

## 8. KEY FINDINGS:

- India is attracting foreign investment at a good rapid rate of growth. Agriculture is an important sector of the Indian economy and accounts for almost 19% of Indian gross domestic products (GDP). The main reason for this substantial growth in FDI was opening up of Indian economy to foreign investment, relaxation of norms for foreign investments and enhancing sector wise limit.
- In agriculture sector wise analysis, food processing industries was on the top FDI total inflows 2.56% (table 1.1) than other agriculture service, rubber goods, agriculture machinery, fertilizers and tea sectors.
- As compare the data, the service sector that attracted higher inflows were (17.32%),
- and agriculture total inflows (4.64) (table 2.1)
- 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. 100% FDI is also permitted in tea sector. FDI is not allowed in any other agricultural sector/activity (table 3.1)

## 9. CONCLUSION

Foreign direct investment plays an important role in the economic growth and development of India. The inflow of FDI in agriculture sector from April, 2000 to January 2015 attained substantial sustained economic growth and development through creation of jobs in India. FDIs are predicted to have a significant positive impact on rural populations, living in about 600,000 small villages of India. Agriculture is the backbone of Indian economy. Agriculture is an important sector, which determines growth and sustainability development and plays a vital role in the development of India. Service sector, Construction Development, Telecommunications, Computer, Software & Hardware and Drugs & Pharmaceuticals sector etc. were the other sectors to which attention was shown by Foreign Direct Investors (FDI). The other sectors in Indian economy the Foreign Direct Investors interest was, in fact has been completely poor. The study shows that there has been remarkable increase in FDI inflow in India during the period 2000 -2015. There are some issues which limiting the flow of FDI in India but Indian economy is growing day by day. It is presume that in the upcoming year FDI in agriculture sector will grow more than the last years. FDI in Indian agriculture sector increase employment and development opportunities. Therefore, there exists the long run relationship between FDI and agriculture sector in Indian economy.

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