International Journal of Scientific and Innovative Research 2014; 2(2) : 39-44,
P-ISSN 2347-2189, E- ISSN 2347-4971

IMPACT OF FDI IN AGRICULTURAL SECTOR

*MANISH KUMAR AWASTHI [1] , JYOTI AGARWAL [1], S. C. PANDEY[2]
[1] Research Scholar, Bhagwant University, Ajmer, Rajasthan , India,
[2]Department of Commerce, Kalicharan Post Graduate College, Lucknow, U.P., India

*Address for correspondence: Manish Kumar Awasthi, Research Scholar, Bhagwant University, Ajmer, Rajasthan, India, Email ID: manu77107@gmail.com

ABSTRACT

Foreign direct investment in Indian retail business at this stage is a burning issue.Retailing is one of the world's largest private industries and Indian retail industry is one of the rising sectors with huge growth potential. According to the Investment Commission of India, the retail sector is expected to grow almost three times its current levels to $660 billion by 2015. Liberalizations in FDI have caused a massive restructuring in retail industry. The benefit of FDI in retail industry superimposes its cost factors. It enables a country's product or service to enter into the global market. With around 12 million retail outlets pan India and an estimated size of around $450 billion, the retail sector perhaps remains one of the key contributors to India's GDP. Thus as a matter of fact FDI should not just be allowed but significantly encouraged too. In this context, the study tries to find out the influence of FDI and its need and significance in the retail sector and tries to focus some possible impact of FDI in agricultural marketing.

Keywords: *FDI, Liberalization, Retailing, Agricultural Marketing.*

INTRODUCTION

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. According to the World Bank Development Report, in 2000 over 1.1 billion people were subsisting on less than US$1 a day and around 2.1 billion people on less than US$2 a day of whom between two thirds to three-quarters live in rural areas. Thus, if the war on poverty is to be won, developing countries need to place more emphasis on the agricultural sector, where incidence of poverty is highest. Agriculture is the main stay of the Indian economy as it forms the backbone of rural India which inhabitants more than 70% of total Indian population. Indian economy has been heavily geared towards the service sector that contributes 56% of our GDP. The service sector's contribution to the increase in GDP over the last 5 years has been 63.9%. Having a high contribution from services is an attribute that is characteristic of developed economies. In China, manufacturing accounts for a significant share of GDP, whereas in India, manufacturing contributes a mere 23.1% of the GDP. India to grow at an 8 to 10% economic growth rate our agricultural sector has to expand. For that to happen there is a need for reforms in our agricultural sector in the way which calls for agricultural produce to be procured, stored and marketed, for huge investments in the supply and distribution chain and the most importantly, for ushering in competition in the supply and distribution chain where the farmer decides whom to sell and at what price. The government can always decide the ceiling price. Also, India should openup its retail sector to foreign capital and competition. Foreign retailers would bring with them the best practices and investments in the supply and distribution chain and at the same time open up linkages to the global markets for Indian agricultural and dairy products. Modern retailers procure in bulk and sell at low prices.

They thrive on reducing the inefficiencies in the supply chain bringing down the cost substantially for the consumers and getting a better deal for the farmer.

Indian economy has been on a growth trajectory over the last two decades along with the fast changing demographics, life style and surge in domestic consumption and consumerism. The retail industry in India is growing at fast pace and is expected to grow in manifolds in near future. In the post- globalization era, FDI in retail business is steadily growing in various countries, India being not the exception. However organized retailing in the Indian agricultural sector is still in the stages of findings its feet.The government is opening the idea of permitting FDI in the Indian retail sector with the changes in economic policy. In the densely populated country like India it has boosted the investment climate and has significant implications on its economic conditions. Important aspects of the agrarian sector and rural sector in India that have a positive impact on FDI Inflows to Agricultural Machinery are:

1. 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.
2. The target set for generating Farm credit for 2007-08 is Rs. 225,000 crores.
3. A pilot program for delivering subsidy directly to farmers to be introduced.
4. Loan facilitation through Agricultural Insurance Institutions and NABARD has also been extended.
5. Corpus of Rural Infrastructure Development Fund to be raised.
6. 66,800 habitations with population over 1000 is to be connected with all weather roads.
7. Construction of 1,46,000 Km of new rural roads have been sanctioned.
8. Investment to the tune of Rs. 1,74,000 crores envisaged under “Bharat Nirman”.

This paper attempts to find out possible impacts of such FDI in agricultural retail marketing.

OBJECTIVE AND SCOPE

The aim of the study is to analyze the strategic issues concerning the influx of foreign direct investment in the Indian agricultural sector. This study reviews the emerging opportunities for agribusiness enterprises with ongoing market developments. Its main objectives are to know the agricultural conditions of India and find out its problems and prospects.

RESEARCH METHODOLOGY

Descriptive research methodology is carried out in this paper. It is mainly based on the secondary data collected from various sources. We have also used some primary data which is collected by telephonic talk and interviews of the farmers, entrepreneurs. Reliance has been placed on books, journals, newspapers and online databases and on the views of writers in the discipline of Competition law.

PRESENT SCENARIO IN AGRICULTURAL SECTOR (MARKETING)

In India, Agricultural sector is highly unorganized and fragmented. The conditions of Indian farmers and their profit potentials both are substantially declining, because of lack of rural credit facility to small and marginal farmers, continuous increase in the cost of inputs and crop price, and lower quality of seeds etc. If the production is good then there is a glut and prices fall, and if there is crop a failure then farmers hardly get any compensation in the form of higher prices. Profitability of farmers here is gradually decreasing, which even inclined them to move and settle down in urban area, where life sustenance is even more difficult. The study is based on micro level survey covering 5 villages of BKT area which lies in the outskirts of Luck now, Uttar Pradesh, India covering 400 farmers in 2010-11.

LIMITATIONS OF THE PRESENT SETUP

(A) Infrastructure

There has been a lack of investment in the logistics of the retail chain, leading to an inefficient market mechanism in the economy. Though India is the second largest producer of fruits and vegetables (about 180 million MT/ annum), it has avery limited integrated cold-chain infrastructure, with only 5386 stand-alone cold storages having a total capacity of 23.6 million MT, where around 80% of this is used only for potatoes The chain is highly fragmented and hence, perishable horticultural commodities find it difficult to link to distant markets, including overseas markets, round the year. Storage infrastructure is necessary for carrying over the agricultural produce from production periods to the rest of the year to provide uninterrupted supply and to prevent distress sales. Lack of adequate storage facility, transport facility, information technology etc. causes heavy losses to farmers in terms of wastage as well as in lowering the selling prices. Though FDI is permitted in cold-chain to the extent of 100%, through the automatic route, in the absence of FDI in retailing, FDI flow to agricultural retailing is almost nonexistent.

(B) Dominance of intermediaries in the value chain

Intermediaries often flout market norms and their pricing even lacks transparency. Wholesale regulated markets, governed by State APMC Acts, have developed a monopolistic and non-transparent character. Indian farmers realize only 1/3rd of the total price paid by the final consumer, as against 2/3rd by farmers in nations with a higher share of organized retail. This clearly shows how the Indian farmer is been exploited by this long chain of intermediaries, which also is one of the main reason of their present situation.

(C) Improper Public Distribution System (PDS)

There is a big question mark on the efficacy of the public procurement and PDS set-up and the bill on food subsidies which is continuously rising. In spite of such heavy subsidies, overall food based inflation has been a matter of great concern and a serious thought. The absence of a 'farm-to-fork' retail supply system is absent, which is one of the main reasons of increase in prices of food items.

EMPERICAL FINDINGS

Agricultural retail market in India is in a very disadvantageous position suffering from lack of avenues to reach out to the vast domestic as well as world market. This has largely been due to the inability of this sector to access latest technology and improve its marketing interface. Development of organized retailing market either induced by indigenous capital or by foreign capital is very crucial where small and marginal farmers can supply their product directly to these big retailers (Indian or foreign). 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. Over production or glut both becomes the cause of farmer's distress. The survey data presents that 28 % of paddy production is sold at zero profit margin and for 45% of paddy production profit margin varies from 5 to 10 percent. Only it is the rest 26% of total production where profit margin is above10%. But the maximum profit margin is 15%. The main cause is the lack of storage facility, failure of the Government mechanism to reach the farmers with minimum support price and virtual non-existence of organized marketing infrastructure.

TABLE- I : AGRICULTURAL MARKETING SCENARIO

Profit margin	Paddy	Wheat	Potato	oilseeds	vegetables
0 -5%	28	14	40	44	82
5- 10%	46	42	52	41	14
10- 15 %	26	08	05	33	06

Data Source: Survey

FDI IN RETAIL SECTOR (MARKETING) IN INDIA

Over the last two decades, Indian economy has witnessed a significant rise of FDI flows as well as a remarkable increase in the growth rate with favorable consequences on employment, infrastructure development and business climate. Fast growing Indian economy accompanied by growing domestic consumer markets has raised the growth of retail sector at a faster rate mostly in unorganized sector.

TABLE- 2 : PERCENTAGE OF ORGANIZED RETAIL

Retail sector	US	Thailand	China	India
Organized	85	40	20	03
Unorganized	15	60	80	97

Source: P.Shivakumar and S Senthilkumar, 2011

Organized retail has huge potentiality which is still at nascent stage, compared to other developing economies .Though the share of retail sector in total FDI flows is very low (0.02%), it has enormous growth potential in India particularly in agricultural sector considering the limitations of the present setup regarding infrastructure ,communication network in rural economy, efficient supply chain, modern technology etc.

With liberalization in1990s organized retail sector has grown many folds when many Indian players like Shoppers Stop, Pantaloon Retail India Ltd, Spencer Retail ventured into the organized retail market. With the opening up of foreign direct investment in single brand retail and cash- and - carry formats Indian retail market has got a new momentum. With liberalization in foreign trade policy in 1991, the Indian Government allowed 100% foreign investment in wholesale cash-and- carry and single branded retailing but, it prohibited foreign investment in retail. In 1997 restrictions were again imposed on retail sector but in 2006 these restrictions were lifted and opened in single brand retailing and in cash-and carry formats. Indian retail industry becomes an attractive FDI destination for many global players and cash and carry format becomes the entry route for global retailing giants. Wal-mart has forged an alliance with Bharti for a cash-and- carry business and Bharti is concentrating on front-end- retail. Tesco enters in Indian retail market through an alliance with Trent (Tata Group). Many foreign brands enter Indian retail sector either through Joint ventures with leading Indian retailers (like Louis Vuitton, Marks and Spencer PLc, Armani) or through exclusive franchisees to set up shops in India (like McDonald's, KFC, Dominos). With the entry of foreign direct investment, the Indian organized retail market has become more competitive in terms of implementing newer business models on the operational format and pricing and reinventing and improving the supply chain.

The argument often given against FDI in retail is that it will severely affect mom and pop shops; they won't be able to survive the competition. But we already have homegrown modern retailers like Big Bazaar, Nilgiri's etc. who are thriving along with the traditional kirana stores. So, in any case, we have modern retailers in the market. The Indian retail market is very different from the Western retail market. In India consumers like to make purchases frequently and in small quantities. Instead of travelling to the large retail stores far from their own place of residence, people still prefer the convenience of the traditional neighborhood kirana store. More over the kirana stores can buy from the cash and carry stores and reduce their cost of procurement. Agriculture still accounts for 60% of India's labor force and an improvement in the agriculture sector would directly benefit them. Allowing 100 % FDI in retail would lead to an agricultural and a dairy revolution in the country.

The present policy with regard to FDI in agriculture and plantation is as follows:

i) FDI up to 100% is permitted under the automatic route in the under mentioned activities viz., floriculture, horticulture, development of seeds, animal husbandry, pisciculture, aquaculture and cultivation of vegetables and mushrooms, under controlled conditions and services related to agro and allied sectors.

ii) FDI up to 100% with prior government approval is permitted in tea plantation subject to the conditions of divestment of 26% equity of the company in favour of an Indian partner / Indian public within a period of five years; and prior approval of the state government concerned in case of any future land use change.

iii) Besides the above two, FDI is not allowed in any other agricultural sector / activity.

iv) The government has announced 100 per cent Foreign Direct Investment (FDI) in the agriculture sector including seeds, plantation, horticulture and cultivation of vegetables. According to the circular by the Department of Industrial Policy and Promotion (DIPP) animal husbandry, pisciculture, aquaculture under controlled conditions and services related to agro and allied sectors have also been provided with 100 per cent FDI along with the tea sector.

The new rules have been implemented from April 1, 2011. DIPP has imposed certain conditions for companies dealing with growth of transgenic seeds and vegetables. While dealing with genetically modified seeds or planting material the company is expected to comply with safety requirements in accordance with laws enacted under the Environment (Protection) Act on the genetically modified organisms; any import of genetically modified materials, if required, shall be subject to the conditions laid down vide notification issued under Foreign Trade (Development and Regulation)Act,1992.

CONCLUSION

Capital investment either by indigenous or foreign capital seems to be a very powerful catalyst to spur the investment climate in agricultural retailing, taking into consideration the current scenario of inefficient supply chain, lack of proper storage facilities and presence of multi-level intermediaries between farmers and direct consumers. Huge investment in marketing infrastructure is required to protect the agricultural sector which is not forthcoming from the Government sector. FDI- driven 'modern retailing' being a direct interface between farmers and retailers trigger a series of reactions which in the long run can improve supply chain and transport sector of the rural agronomy of all the agricultural states in India.

The policy of allowing 100% FDI in single brand retail can benefit both the foreign retailer and the Indian partner – foreign players get local market knowledge, while Indian companies can access global best management practices, designs and technological knowhow. By partially opening this sector, the government can reduce the pressure from its trading partners in bilateral and multilateral negotiations and can demonstrate India's intentions in liberalizing this sector in a phased manner. 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.

Apart from this, by allowing FDI in retail trade, India will significantly flourish in terms of quality standards and consumer expectations, 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. It is to be noted that the Indian Council of Research in International Economic Relations (ICRIER), a premier economic think tank of the country, which was appointed to look into the impact of BIG capital in the retail sector, has projected the worth of Indian retail sector to reach $496 billion by 2011-12 and ICRIER has also come to conclusion that investment of 'big' money (large corporate and FDI) in the retail sector will not going to harm the interests of small and traditional retailers, keeping future market into consideration.

In light of the above, it can be safely concluded that allowing healthy FDI in the retail sector will not only lead to a substantial surge in the country's GDP and overall economic development, but will also help in integrating the Indian agricultural retail market with that of the global retail market in addition to providing higher profit margin to Indian farmers which the unorganized sector has undoubtedly failed to provide. Industrial organizations such as CII, FICCI, US-India Business Council (USIBC), the American Chamber of Commerce in India, the Retail Association of India (RAI) and Shopping Centers Association of India (a 44 member association of Indian multi-brand retailers and shopping malls) favors a phased approach towards liberalizing FDI in multi-brand retailing, and most of them agree with considering a cap of 49-51 per cent to start with.

FDI in agricultural retailing must be dealt cautiously as it has a direct impact on a large chunk of population. Left alone foreign capital will seek ways through which it can only multiply itself, and unthinking application of capital for profit, given our peculiar socio-economic conditions, may spell doom and deepen the gap between the rich and the poor. Thus the proliferation of foreign capital into agricultural retailing needs to be anchored in such a way that it results in a win-win situation for India. This can be done by integrating into the rules and regulations for FDI retailing by deliberately putting certain inbuilt safety valves. To ensure that the foreign investors make a genuine contribution to the development of infrastructure and logistics, it can be stipulated that a percentage of FDI should be spent towards building up of back end infrastructure, logistics or agro processing units. Reconstituting the poverty stricken and stagnating rural sphere into a forward moving and prosperous rural sphere can be one of the justifications for introducing FDI in agricultural retailing but the government should put in place an exclusive regulatory framework. It will ensure that the retailing giants do not resort to predatory pricing or acquire monopolistic tendencies. Thus, as a matter of fact FDI in the buzzing Indian retail sector should not just be freely allowed but per contra should be significantly encouraged. Allowing FDI in multi brand retail can bring about supply chain improvement, investment in technology, manpower and skill development, tourism development, greater sourcing from India, up gradation in agriculture, efficient small and medium scale industries, growth in market size and benefits to government through greater GDP, tax income and employment generation.

REFERENCES

1 EOgeny, Omari,"Organized Retailing in Global Competitive", Journal of Strategic Marketing, 6(1) 65,1998

2 K Khatri, "The future prospects of Retail Industry",European Journal of Marketing,41(11)2007

3 D. Gupta, "Whither the Indian Village,"Economic and PoliticalWeakly,February2005.

4 S Choudhury, " Farm fatalities", The Statesman, February 6,2012

5 Govt of West Bengal, 'West Bengal Human Development Report", 2004

6 P Shivakumar and S Senthilkumar, 'Growing Prospective of RetailIndustry in and around India", Advances in Management, Vol 4(2),2011.

7 Economic Reforms, Foreign Direct Investment and its Economic Effects in India by ChandanaChakraborty Peter NunnenkampMarch 2006.

Because of low FDI into agriculture, spill-over effects in agricultural sector, if have, would be small. This feature can be checked with data of Vietnam in the period 1998-2012. All issues above would be brought in different ways into the model. 2. Methodology. All issues mentioned above would be presented in this section.Â To analyze impacts of FDI on technical efficiency in agricultural production, two variables are included: FDI represents the FDI inflow to each province in the period 1998-2011. This variable can reflect impacts of vertical spillover of FDI to agricultural production of provinces. The second variable FDI*G is the product of dummy variable G (taking value of 1 if that is a rich province and 0 if not). FDI Inflows to Agricultural Machinery. 100% foreign direct investment (FDI) allowed through the.Â Renuka, R., ets, (2013), â€œImpact of FDI in Indian Economy with Special Reference to Retail Sector in Indiaâ€, Global Research Analysis, Volume: 2, Issue: 1, Jan 2013. Department of Industrial Policy and Promotion, (2010) â€œForeign Direct Investment (FDI) in Multiband Retail Trading,â€ Discussion paper, http://www.dipp.nic.in. In this paper, the impact of Foreign Direct Investment (FDI) on agricultural productivity and poverty reduction are examined. Factors that hinder FDI flow to agriculture in Tanzania are assessed. Specifically, the role of FDI in improving an agricultural firmâ€™s efficiency in Tanzania and reforms required for more effective investment promotion in agriculture are examined. The study uses literature review to draw its conclusions and policy recommendations. It is observed that FDI has a positive impact on productivity especially to smallholder farmers who are linked in integrated producer schemes. The study recommends rethinking of the smallholder institutional setup for increasing productivity and FDI flow to the agricultural sector. FDI in Indian agriculture sector and the latest developments are as follows: 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 agro and allied sectors. Farm credit target of ` 225,000 crore for 2007-08 has been set with an addition of 50 lakh new farmers to the banking system.Â A pilot programme for delivering subsidy directly to farmers have been arranged. Loan facilitation through Agricultural Insurance and NABARD has also been facilitated. Corpus of Rural Infrastructure Development Fund to be raised. FDI Inflows to Agriculture Services also facilitated growth of other allied areas, like the following