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RELATIONSHIP BETWEEN GDP OF INDIA AND FOREIGN CAPITAL STOCK.

Sandip Nandi [1],
Research Scholar ,MAKAUT,WB .

Prof. Dr. Tapas saha[2] ,

Director, IMS Business School, kolkata

Abstract

The astounding and anomalous thrive of Foreign Investment in the global economic landscape over the last two decades has made it an integral part of the development strategy of both the developed and developing nations. It acts as a major catalyst in the development of a country through up-gradation of technology. Agriculture is the backbone of Indian economy and it accounts for almost 14% of India's gross domestic product (GDP). It is an important sector, which determines growth and sustainability and plays a vital role in the development of India, with over 60 percent of the country's population deriving their subsistence from it. After globalization almost every country in Asia has welcomed foreign investments in many sectors. Being an agrarian developing country, India is not an exception, like all other countries India has also allowed Foreign Investment in various sectors including agriculture. This study appraises the opportunities of expansion of Foreign Investment in agricultural sector and the major challenges it faces.

Keywords: GDP, Foreign Investment

Introduction

During 1950's growth theory became intensified around the term foreign capital. Its role was accentuated in the investment equation of developing countries as these countries had paucity of capital, due to truncated income, frugalness and other encumbrance to augment. Hence in the developing world capital accretion and capital flux is surmised to be substantial. The plight of 1991 and the New Economic Policy had transmuted the Indian economy. With the globalization and opening up policy the ripples of international events could be discerned in our economy too. The capital influxes and out fluxes emerged as a resilient factor for determining the growth of the economy. Capital fluxes may be stratified into Foreign Direct investment and Foreign Portfolio investment.

Over the neoteric past, multiple factors have in synced to facilitate growth in the agriculture sector in India. These include growth in household income and consumption, expansion in the food processing sector and increase in agricultural exports. Surging private participation in Indian

agriculture, emerging organic farming and implementation of information technology are some of the key trends in the agriculture industry.

As per the 4th Advance Estimates, food grain production is estimated at 252.68 million tonnes (MT) for 2014-15. Production of pulses estimated at 17.20 million tonnes.

With an annual output of 138 MT, India is the largest producer of milk. It also has the largest bovine population. India is the largest importer of pulses at 19.0 MT and 3.4 MT, respectively. India, the second-largest producer of sugar, accounts for 14 per cent of the global output. It is the sixth-largest exporter of sugar, accounting for 2.76 per cent of the global exports.

Spice exports from India are expected to reach US$ 3 billion by 2016–17 due to creative marketing strategies, innovative packaging, strength in quality and strong distribution networks. The spices market in India is valued at Rs 40,000 crore (US$ 6.16 billion) annually, of which the branded segment accounts for 15 per cent.

The procurement target for rice during marketing season (MS) 2015–16 has been finalised as 30 MT.

Several players have invested in the agricultural sector in India, mainly driven by the government's initiatives and schemes.

According to the Department of Industrial Policy and Promotion (DIPP), the Indian agricultural services and agricultural machinery sectors have cumulatively attracted foreign direct investment (FDI) equity inflow of about US$ 2,182 million from April 2000 to June 2015.

Some major investments in agriculture in the recent past are as follows:

- Oman India Joint Investment Fund (OIJIF), a joint venture (JV) between the State Bank of India (SBI) and State General Reserve Fund (SGRF), invested Rs 95 crore (US$ 13.94 million) in GSP Crop Science, a Gujarat-based agrochemicals company
- Fertiliser cooperative IFFCO launched a joint venture with Japanese firm Mitsubishi Corp for manufacturing agrochemicals in India.
- Rabo Equity Advisors, the private equity arm of Netherlands-based Rabo Group, raised US$ 100 million for the first close of its second fund – India Agri Business Fund II. The fund plans to invest US$ 15–17 million in 10–12 companies.
- The Small Farmers' Agri-Business Consortium (SFAC) plans to organise camps in Madhya Pradesh and Chhattisgarh to promote its venture capital assistance scheme (VCAS), which seeks to provide capital and project development facility (PDF) to agri-business entrepreneurs.
- Agri-research institute ICRISAT's incubation arm is looking to set up a Rs.100 crore (US$ 14.67 million) fund in a year, an initiative that could help small entrepreneurs from the agri-business and nutrition space raise money.

- Mahindra & Mahindra (M&M), India's leading tractor and utility vehicle manufacturer, announced its entry into pulses retailing under the brand 'NuPro'. Going forward, the company plans to foray into e-retailing and sale of dairy products.
- Acumen, a not-for-profit global venture fund, has invested Rs 11 crore (US$ 1.7 million) in Sahayog Dairy, an integrated entity in the segment, based at Harda district in Madhya Pradesh.
- Rabo Equity Advisors, the private equity arm of Netherlands-based Rabo Group, raised US$ 100 million for the first close of its second fund – India Agri Business Fund II. The fund plans to invest US$ 15–17 million in 10–12 companies.
- The world's seventh-largest agrochemicals firm, Israel-based ADAMA Agrochemicals plans to invest at least US$ 50 million in India over the next three years.

In India, agriculture is an eminent sector of the Indian economy and enumerates for almost 19% of India's gross domestic product (GDP). Agriculture forms the backbone of rural India which inhabits 70% of the Indian population; hence any policy decision regarding agriculture has an impact on a large majority of the vast population. The main governing bodies that define the future role of agriculture in India are The Ministry of Agriculture, the Ministry of Rural Infrastructure, and the Planning Commission of India. It aims at developing agricultural sector of India. Prior to the new FDI policy only in Tea sector 100% FDI was allowed. This requires Government of India approvals. Further, it required 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 in Indian agriculture sector and the latest developments are as follows:

i) 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 favor 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.

ii) FDI up to 100% is permitted under the automatic route in activities such as development of seeds, animal husbandry, pisces culture, cultivation of vegetables and mushrooms etc under controlled conditions and services related to agro and allied sectors.

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

iv) The government of India has enabled FDI in the fertilizers industry of the country. FDI in fertilizers in India is allowed up to 100% under the instinctive route in India.

It is widely believed that these steps will aid in the growth of agriculture infrastructure in the country and will benefit the sector in the long run. It has been further contended that India should open up its retail sector for further development of the agriculture sector. It is believed that foreign

retailers would usher 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.

Thus, Foreign Investment is significant as a basis for economic evolutions of Developing Countries and even those countries that are already developed and industrialized. This explains why USA had the highest amount of Foreign Private Investment outside yet still receives the highest amount of inflow of same (Aikten 1997[1]). In India, Foreign Investment can help to bridge the resource gap by developing the manufacturing, agriculture, mining and even the financial sector through foreign portfolio and direct investment. Despite the efforts made to bridge this resource gap, the contribution of Foreign Investment to agricultural production has sometimes not been encouraging. It is against this background that this study investigates the "Contingency and Confutes of Foreign Investment in the Indian Agricultural Sector."

Objectives:

Against this background the present study has been conducted so as to understand the FDI Influxes in the agricultural sector during and after the recession period and the impact of FDI in the agricultural sector of the economy.

FDI inflows in agricultural services and machinery

FDI inflows in the Indian agricultural services and machinery are allowed up to 100 percent and allowed through automatic route in India. The foreign direct investment (FDI) inflows in agricultural services and machinery sector during April 2000 - December 2016 stood at US$ 2315.33 million respectively, as per data released by Department of Industrial Policy and Promotion (DIPP).

Sector-Wise Foreign Direct Investment Equity Inflows in India during April, 2000 - December, 2016

Name of the Sector	FDI Inflows in (Crores)	FDI Inflows in (US $ million)	Percentage Share in Total Investment
Agriculture Services	9,443.95	1,869.37	0.58
Agriculture Machinery	2,339.92	445.96	0.14

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

The overall percentage of such foreign direct inflow in the Indian agricultural services and agriculture machinery is 0.58 and 0.14 of the total quantum of the FDI inflow during the 2000-16. FDI inflows into agricultural machinery of India have resulted in the steady rise of the Indian agriculture industry in recent years.

FDI inflows to fertilizers industry in India

The government of India has allowed foreign direct investment in the fertilizers industry of the country. Foreign Direct Investment (FDI) in fertilizers in India is allowed up to 100% under the automatic route in India. The various advantages of FDI inflows into fertilizer industries are growth, quality, improved technology and expansion of fertilizer industry. It is widely believed that these steps will aid in the growth of agriculture infrastructure in the country and will benefit the sector in the long run.

Sector-Wise Foreign Direct Investment Equity Inflows in India during April, 2000 - December, 2016.

Name of the Sector	FDI Inflows in (Crores)	FDI Inflows in (US$million)	Percentage Share in Total
Fertilizers	3,065.29	565.57	0.17

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

FDI inflows to Food processing Industries

Food processing has a vital link with agriculture sector. India attracted $385.45 million

FDI in the food processing sector during April-December period of the current fiscal, in the previous fiscal, foreign direct investment (FDI) inflows in the food processing sector stood at $515.86 million. The sector has attracted $5,285.66 million FDI during April 2012 to December 2015. 100 per cent of 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. Most of the items in food processing sector are exempted from license agreement, except those that are kept in reserve for the small scale sectors.

Sector-Wise Foreign Direct Investment Equity Inflows in India during April, 2000 - December, 2016

Name of Sector	FDI Inflows (Crores)	FDI Inflows in (US $ million)	Percentage Share in Total Investment
Food Processing Industries	44,704.83	7,478.92	2.31

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

India has emerged as a major player in the global agriculture market. Exports of Agricultural Products in India increased to 168.64 INR Billion in September from 168.19 INR Billion in August of 2016. Exports of Agricultural Products in India averaged 63.96 INR Billion from 1991 until 2016, reaching an all time high of 276.15 INR Billion in December of 2013 and a record low of 4.95 INR Billion in October of 1991 against agriculture imports of US$ 20 billion, with an output of net trade surplus of US$ 21 billion, according to data released by the Agricultural and Processed Food

Products Export Development Authority (APEDA).

FDI would also bring investment in post-harvest infrastructure that would increase the shelf-life of produce and minimize food wastage (now as high as 20-30%). Moreover, new investment would result in other positive externalities such as better seeds and stricter standards that would increase quality and productivity while lowering costs.

Impact of foreign direct investment in the overall growth of the sector

After the liberalization, agriculture sector was susceptible for foreign speculation and was also pursued by improved technology, better seeds and thus expeditious growth. However, the surge was restrained to certain extent which drove to increase in equality in the country (Sawant 2014[2]). The intrigue of the investors in the allied sectors of the agriculture abetted the export of goods which trailed a greater demand for them. However the production of food crop cultivation dwindled for those products which have relatively less demand in the international market. However, the overall growth in the agricultural sector has been enormous compared to the period before liberalization. Now India stands as one of the leading exporters of the agricultural goods in the world (Agrawal & Khan 2011[3]).

Service and manufacturing sector has largely been aided from high influx of foreign capital. However, foreign direct investment in agriculture entails a more comprehensive research. Both positive and negative aftermath should be closely analysed, in the context of Indian economy. In a nutshell, there has been an extensive reformation and the growth in the sector after the introduction of the economic reform. However, better monitoring and regulation of foreign direct investment is entailed for a good growth. Policies kindred to foreign investment needs to be liberalized for the food crops. This might lead to technological boom and growth in the sector.

Conclusion:

The ensuing evolution of the Indian agriculture sector through FDIs is presaged to have a denotative positive aftermath on the 700-million strong rural populations, living in about 600,000 small villages of India. Rapid speculations in technology development, irrigation infrastructure, accentuation on modern agricultural exercises and provision of agricultural credit and subsidies are the major factors bestowed to agriculture growth. FDI in Indian agriculture sector surge employment chances. FDI remains perpetual in the host country because of the augmentation in the infrastructures of the host country. Therefore, there subsist the long run relationship between level of GDP and foreign capital stock.

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