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**INDIA AS THE WORLD'S MOST ATTRACTIVE INVESTMENT DESTINATION**

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**Introduction**

A survey by global consultancy firm Ernst & Young (E&Y) sees India as the world's most attractive investment destination. With the opening up of foreign direct investment (FDI) in several sectors, India is today an eye-catching destination for overseas investors. The relaxation of norms by the government has created a vast opportunity for foreign players, who are competing for a greater role in the Indian market. Sectors projected to do well in the coming years include automotive, technology, life sciences and consumer products.

India has also become a hotbed for research and development (R&D) and the country is now a preferred destination for automotive R&D, as per a study on the Global Top 500 R&D spenders by globalisation advisory and market expansion firm, Zinnov. The study noted that there was strong potential for growth in areas such as engineering analytics and that significant talent could be found in 'Deccan Triangle' region, which encompasses Pune, Bangalore and Hyderabad.

The US\$ 1.2 trillion investment planned for the infrastructure sector in the 12th Five-Year Plan will go a long way in improving export performance of Indian companies and the Indian growth story, according to Mr Anand Sharma, Union Minister for Commerce and Industry, Government of India. The World Bank has projected an economic growth rate of 5.7 per cent in FY 15 for India, due to a more competitive exchange rate and several significant investments going forward.

India is the third biggest economy in the world in terms of purchasing power parity (PPP), according to a World Bank report. The country was ranked 10th in the previous survey conducted in 2005.

India will become the third largest economy in the world by 2043, as per Mr P Chidambaram, Union Finance Minister, India. The country has been consistently rated among the world's top three investment destinations by international bodies such as the World Bank and UNCTAD, supported by its liberal foreign investment policies.

### **Key Developments/Investments**

While digitisation in India continues to grow, the country's demand for paper is expected to increase by 53 per cent over the next six years, on the back of sustained growth in the number of school-going children in the hinterlands. Improved consumerism; modern retailing; rising literacy, backed by government spending on education; and the growing use of documentation is expected to sustain demand for writing and printing paper.

The US Green Building Council (USGBC) has ranked India third in a list of the top 10 countries (excluding the US) for Leadership in Energy & Environmental Design (LEED) certified buildings. The list reflects the global adaptability of the most widely used and recognised system in the world guiding the design, construction, maintenance and operations of green buildings.

Merchandise exports grew at a five-month high of 5.3 per cent in April 2014 to touch US\$ 25.6 billion, against US\$ 24.35 billion in April 2013, according to official data. Outbound shipments grew on the back of high-value engineering goods, drugs and pharmaceuticals, and textile products. Engineering exports rose by 21.3 per cent to touch US\$ 5.7 billion, while pharma rose 10.4 per cent to touch US\$ 1.3 billion.

With European corporations taking a cue from their US counterparts to make outsourcing mainstream, India's software companies, sensing the opportunity, are hiring and looking for acquisitions to grow in Europe. Tata Consultancy Services, India's largest information technology (IT) provider, invested in on-site hiring in Europe and also acquired French IT services player Alti for US\$ 75 million in 2013. Infosys bought Zurich-based consultancy firm Lodestone for US\$ 349 million, in 2012. More acquisitions look likely in future.

The stakes held by foreign institutional investors (FII) in Indian companies touched a record high in the fourth quarter of FY 14. The estimated value of FII holdings in India stands at US\$ 279 billion.

The cumulative amount of FDI equity inflow into India stood at at US\$ 212,031million in the period April 2000–February 2014, while FDI equity inflow during April 2013–February 2014 was recorded as US\$ 20,766 million, as per data published by Department of Industrial Policy and Promotion (DIPP).

Private equity (PE) investments in the Indian real estate sector grew by 13 per cent at Rs 7,000 crore (US\$ 1.17 billion) in 2013 as against Rs 6,200 crore (US\$ 1.03 billion) in 2012, as per a report by Cushman & Wakefield.

### **Government Initiatives**

In a bid to bring more investments into India's debt and equity markets, the Reserve Bank of India (RBI) has set up a framework for investments which will enable foreign portfolio investors to take part in open offers, buyback of securities and disinvestment of shares by the Central and State governments.

FIIs and non-resident Indians (NRIs) will now be able to invest in the insurance sector, within the 26 per cent cap on FDI. DIPP confirmed in a press note that the norms would also apply to insurance brokers, third-party administrators (TPAs), loss assessors and surveyors. The investments can be made through the automatic route.

The Government of India along with the industry has been working towards fashioning a more dynamic environment for small and medium enterprises (SMEs) and startups over the last few years. Indian SMEs employ about 40 per cent of the country's workforce and contribute 45 per cent to the overall manufacturing output. A positive policy framework allied with the growth of angel funds and a vibrant entrepreneurial culture is contributing to the growth of first generation entrepreneurs in the country.

At 179.9 million hectares, India holds the second largest agricultural land in the world. A majority of the Indian population relies on agriculture for employment and livelihood. Steady investments in technology development, irrigation infrastructure, emphasis on modern agricultural practices and provision of agricultural credit and subsidies are the major factors contributing to agriculture growth.

The country has today emerged as a major player in the global agriculture market. Agriculture accounts for 14 per cent of gross domestic product (GDP) and about 11 per cent of India's total exports; it is also an essential link in the supply chain of the manufacturing sector and at the same time constitutes a big market for industrial products. Currently, India is the world's largest rice exporter and second in terms of wheat exports. Horticulture exports have also seen good growth. India's agro exports during 2013–14 touched US\$ 45 billion as against US\$ 25 billion in 2011–12.

The Department of Agriculture and Cooperation under the Ministry of Agriculture is the nodal organisation responsible for development of the agriculture sector in India. The organisation is responsible for formulation and implementation of national policies and programmes aimed at achieving rapid agricultural growth through optimum utilisation of land, water, soil and plant resources of the country.

### **Market Size**

Given the good monsoon, the agriculture sector in India is likely to grow in the range of 5.2–5.7 per cent in the 2013–14 agriculture year (July-June), nearly three times as compared to the previous year. In FY 12, total food grains production in India reached an all-time high of 259.3 million tonnes (MT). Rice and wheat production stood at 105.3 MT and 94.9 MT respectively.

Total exports of Indian agri and processed food products in the period April–February 2013–14 stood at US\$ 20,331.05 million as compared to US\$ 19,144.45 million during the corresponding period of the previous year, according to the Agricultural and Processed Food Products Export Development Authority (APEDA).

In 2012–13, the share of exports of ‘agricultural and processed food products’ in total exports rose to 13.53 per cent from 10.5 per cent share in 2010–11. Guar gum has emerged as India’s largest item of farm exports with a share of 9.58 per cent during the period, followed by basmati rice and marine products.

On account of higher output in Assam and West Bengal, tea production in India in April–February, 2013–14 rose by 7 per cent to 1,152.91 million kg. The production was 1,073.93 million kg during the corresponding period of the previous year, according to data from the Tea Board.

### **Investments**

The foreign direct investment (FDI) inflows in agricultural services and machinery sector during April 2000–February 2014 stood at US\$ 1,696.98 million and US\$ 338.65 million respectively, as per data released by Department of Industrial Policy and Promotion (DIPP). The following are some of the major investments and developments in the sector:

- The agriculture division of Mahindra and Mahindra (M&M) has entered into a joint venture (JV) with the Netherlands-based seed company HZPC for sourcing high quality potato seeds for Indian farmers.
- Private equity fund India Agribusiness Fund plans to invest Rs 75 crore (US\$ 12.44 million) in Bengaluru-based Beloorbayir Biotech which supplies key ingredients to global nutraceutical, food, beverage and pharmaceutical makers.
- The National Bank for Agriculture and Rural Development (NABARD) has sanctioned Rs 1,112 crore (US\$ 184.31 million) for creation of 1,336 warehouses in various states and state government corporations in the country, which will create 0.75 MT of additional storage space.
- Tractors and Farm Equipment Ltd (TAFE) plans to invest Rs 250 crore (US\$ 41.44 million) by the end of FY 15 on expansion and development of new products. The company, with four factories, has a capacity of around 200,000 units a year. It plans to increase the total capacity to around 300,000 units a year over the next two years, according to Ms Mallika Srinivasan, Chairman and CEO, TAFE.

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- Indian Council of Agricultural Research (ICAR) has sought Rs 5,700 crore (US\$ 945.55 million) to strengthen Krishi Vigyan Kendras (KVK) in the 12th Five Year Plan. The allocation for KVK was Rs 2,000 crore (US\$ 331.77 million) during the 11th Plan. In addition, a sum of Rs 500 crore (US\$ 82.94 million) has been allocated to the states of Punjab, Haryana and western Uttar Pradesh for diversification of crops.

### Government Initiatives

The Government of India is implementing many programmes for raising investments in agriculture. 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. The following are some of the major initiatives taken by the Government of India:

- The government has allowed 100 per cent FDI under automatic route in storage and warehousing, including cold storages. Hundred per cent FDI is also permitted for development of seeds under the automatic route.
- The government is promoting production of various organic inputs in the country, including bio-fertilisers under the National Project on Organic Farming (NPOF). The project provides financial assistance up to 25 per cent of total financial outlay up to a ceiling of Rs 40 lakhs as credit linked back-ended subsidy for setting up bio-fertilisers production units.
- In the Union Budget 2014–15, a target of Rs 8 trillion (US\$ 132.71 billion) for agriculture credit has been set for 2014–15. The credit target for 2013–14 was Rs 7 trillion (US\$ 116.06 billion). Further, the government on January 31, 2014 released Rs 180.22 crore (US\$ 29.89 million) as grant-in-aid to states under the scheme to develop infrastructure facilities for production and distribution of quality seeds.
- The Cabinet Committee on Economic Affairs (CCEA) has approved the implementation of the National Mission on Agricultural Extension and Technology (NMAET) during the 12th Five Year Plan with a total outlay of Rs 13,073.08 crore (US\$ 2.17 billion). The mission aims to restructure and strengthen agricultural extension to enable delivery of appropriate technology and improved agronomic practices to farmers.

- Further, in 2013–14, a pilot scheme on Nutri Farms was launched with an outlay of Rs 200 crore (US\$ 33.18 million) to promote cultivation of bio-fortified food crops enriched with critical micro nutrients such as iron-rich bajra, protein-rich maize and zinc-rich wheat, etc., to improve the nutrition status of the most vulnerable sections of the country's population.

Agriculture is the mainstay of the Indian economy, providing employment to 52 per cent of its workforce. The agriculture and food processing sector plays an instrumental role in augmenting the growth of the economy, as it is an important source of raw material for the industrial sector. India's agrarian culture and varied regional climate have made a significant contribution to the global food basket. Indian curries, mangoes, snacks and spices are known for their excellent quality worldwide. Globally, India holds the top position in the following food segments:

- India is the largest producer of milk in the world (127.9 million tonnes) which is 16.43 percent share of total milk production in the world.
- India has the largest buffalo population (111 million) which is 58 per cent of the world's buffalo population.
- It is the largest producer of mangoes in the world (15.03 million tonnes) contributing 40.48 percent of the world's total mango production.
- It is also the largest producer of bananas (30.28 million tonnes)
- It occupies the second position in fruit (81.28 million tonnes ) and vegetable production (162.19 million tonnes)
- It is the second-largest producer of fish in the world (over 9 million tonnes)

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**Conclusion**

With a population of about 1.2 billion, India requires a robust, modernised agriculture sector to ensure food security. The 12th Five Year Plan estimated a potential storage capacity expansion of 35 MT. Cold storage capacity also needs to grow rapidly from the current level of 24 MT. The government has targeted an overall growth rate of 4 per cent for the farm sector under the 12th Plan. The growth momentum in India's agricultural exports is expected to continue in the next few years, with an increased share of processed food, including mango pulp, dried and preserved vegetables, meat and poultry items. Factors such as reduced transaction costs, time, better port gate management and fiscal incentives contributed to this upward trend. With continued focus on issues such as food safety and compliance with international standards,

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