International Journal of Multidisciplinary Educational Research
ISSN:2277-7881; Impact Factor :8.017(2023); IC Value:5.16; ISI Value:2.286
Peer Reviewed and Refereed Journal: VOLUME:12, ISSUE:3(6), March: 2023
Online Copy of Article Publication Available (2023 Issues)
Scopus Review ID: A2B96D3ACF3FEA2A
Article Received: 2nd March 2023
Publication Date:10th April 2023
Publisher: Sucharitha Publication, India
Digital Certificate of Publication: www.ijmer.in/pdf/e-CertificateofPublication-IJMER.pdf

Cover Page

DOI: http://ijmer.in.doi./2023/12.03.119
www.ijmer.in

# FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH – A PERSPECTIVE

**Syed Mohammed Hussaini Furqan**
H.No.13-8-41, Papaiahpet Chaman, Warangal, Telangana State, India

## Abstract

Better understanding of the process of generating economic growth requires more than studying the role proximate source of growth. Government of India is projecting FDI (Foreign Direct Investment) in agriculture as a magic wand for economic prosperity amongst the agricultural population in India, especially farmers. FDI has been shown to play an important role in promoting public sector growth by expanding markets, reducing transaction and transformation costs of business. In order to boost financial conditions of Indian economy a section of policy makers, believe foreign direct investment in agriculture would help farmers and consumers by lowering consumer prices and bring about improvements in economic growth. Overall the major contribution of this research paper shows that the better understanding of the contribution of FDI to economic growth requires talking into account the interrelationship and the complementary between FDI and financial institutions. The present paper is based on descriptive arguments, comparative study and analytical logical method developed through the understanding from various research papers, reports, journals, newspapers and online data bases.

**Keywords**: Foreign Direct Investments, Economic Development, Opportunities and threats, Developing countries, foreign ownership.

## Statement of the Problem

***Profitability is the only way to control your own investments.***

***Borje Ekholm***

In 1991, the government of India has thrown open the doors to foreign investors to integrate the Indian economy with the global economy. It is believed that poor investment in agriculture is one of the main causes of slow growth in agriculture. In this connection, National Agriculture Policy, 2000 envisaged to encourage private sector investment in agriculture particularly in the areas like agricultural research, human resource development, post harvest management and marketing (Misra and Puri, 2010). Foreign investment in Indian retail sector will inject competition and efficiencies, create new jobs across the country and reduce the difference in farm gate, wholesale and retail prices. Many studies and surveys were conducted to analyze the impact of FDI in agricultural retailing market. These studies tried to analyze the benefits and threats of FDI in agricultural retailing by assuming whether it would be a" boon or bane" for agriculture sector. Critics of FDI feel that FDI in agriculture would adversely affect the small retailers, farmers and consumers give rise to monopolies of large corporate houses which can adversely affect the pricing and availability of goods).

In addition to this it is believed that by allowing FDI in retail trade, India will significantly flourish in terms of quality standards and consumer expectations. On other hand, the government of India has a strong belief that FDI would help farmers' by eliminating exploitative middlemen, provide huge gainful employment in agro-processing, marketing and logistics and also create a multiplier effect for employment and technology up gradation. A number of large farm lobbies have backed the governments' decision to allow the entry of foreign supermarkets in the country. They are of the opinion that it would shorten the supply chain and get farmers a larger share of the final selling price. The other view is

INTERNATIONAL JOURNAL OF MULTIDISCIPLINARY EDUCATIONAL RESEARCH
ISSN:2277-7881; IMPACT FACTOR :8.017(2023); IC VALUE:5.16; ISI VALUE:2.286
Peer Reviewed and Refereed Journal: VOLUME:12, ISSUE:3(6), March: 2023
Online Copy of Article Publication Available (2023 Issues)
Scopus Review ID: A2B96D3ACF3FEA2A
Article Received: 2nd March 2023
Publication Date:10th April 2023
Publisher: Sucharitha Publication, India
Digital Certificate of Publication: www.ijmer.in/pdf/e-CertificateofPublication-IJMER.pdf
Cover Page
DOI: http://ijmer.in.doi./2023/12.03.119
www.ijmer.in

that the MNC's will bring goods at very low prices from abroad undercutting the farmers throwing them out of business. Another fear that has been raised is that MNC's will regulate the supply chain and in monopolistic situation, offer very low rates to farmers, as a result of which farmers will end up selling their products at a loss. It has been further argued that predatory pricing which in long runs removes economically weaker participant from market.

India's economic security continues to be predicated upon the agriculture sector, and the situation is not likely to change in the foreseeable future. Even now, agriculture supports 58% of the population, as against about 75% at the time of independence. In the same period, the contribution of agriculture and allied sector to the Gross Domestic Product (GDP) has fallen from 61 to 19%. As of today, India supports 16.8% of world's population on 4.2% of world's water resources and 2.3% of global land. And per caput availability of resources is about 4 to 6 times less as compared to world average. This will decrease further due to increasing demographic pressure and consequent diversion of the land for non-agricultural uses. Around 51% of India's geographical area is already under cultivation as compared to 11% of the world average. The present cropping intensity of 136% has registered an increase of only 25% since independence. Further, rainfed dry lands constitute 65% of the total net sown area. There is also an unprecedented degradation of land (107 million ha) and groundwater resource, and also fall in the rate of growth of total factor productivity. This deceleration needs to be arrested and agricultural productivity has to be doubled to meet growing demands of the population by 2050. Efficiency-mediated improvement in productivity is the most viable option to raise production.

**Foreign Investments**

The country recorded impressive achievements in agriculture during three decades since the onset of green revolution in late sixties. This enabled the country to overcome widespread hunger and starvation; achieve self-sufficiency in food; reduce poverty and bring economic transformation in millions of rural families. The situation, however, started turning adverse for the sector around mid-nineties, with slowdown in growth rate of output, which then resulted in stagnation or even decline in farmers, income leading to agrarian distress, which is spreading and turning more and more serious. Natural resource base of agriculture, which provides for sustainable production, is shrinking and degrading, and is adversely affecting production capacity of the ecosystem. However, demand for agriculture is rising rapidly with increase in population and per caput income and growing demand from industry sector. There is, thus, an urgent need to identify severity of problem confronting agriculture sector to restore its vitality and put it back on higher growth trajectory. The problems, however, are surmountable, particularly when new tools of science and technology have started offering tremendous opportunities for application in agriculture.

**Management of Natural Resources**

Continued degradation of natural resources under intensive agriculture to attain goals of food sufficiency is one of the reasons for the declining factor productivity and stagnation in food grains production in the country. The health of our soils has been impaired due to emergence of multi-nutrient deficiencies and falling of organic carbon levels. The soils are, generally, not replenished adequately with nutrients removed by crops, particularly micro and secondary nutrients. The wider fertilizer consumption ratios for many states corroborate nutrient imbalance in soils. The soils are, presently, operating on a negative nutrient balance of about 10 million tonnes per annum. Limiting nutrients, not allowing full expression of other nutrients, obviously, lower overall fertilizer-use efficiency and crop productivity. Farmers are resorting to addition of more and more fertilizers to obtain yields similar to previous years, especially in rice-wheat belt of Indo-Gangetic plains and the increased inputs are thus adding to the production cost; marginalizing net returns to farmers Agriculture is the backbone of Indian economy. It is the main resource of livelihood/occupation for over 75 per cent of the rural population in India. Although, it employs about 52 per cent of the labor force, it contributes to only 14.4 per cent of GDP and 10.23 per cent of all exports. But agricultural retail market of India is highly patchy, fragmented and unorganized. Today, an Indian farmer gets only a third of what the end-consumer pays for his produce. If production is good then there is glut and prices fall. When there is crop failure farmers hardly get any compensation in terms of higher price. One cannot deny than Indian agriculture marketing is characterized by intermediaries. The number of intermediaries and middle men between the farmers and the final consumer is very large. Consequently, Indian farmers are denied of getting reasonable prices for their products.

In addition to that the small farmer faces significant losses due to lack of adequate infrastructure facilities and lack of proper storage facilities. In the absence of proper grading facilities, storage facilities and transport facilities farmers in our country are not in a position to get higher prices for their products, sometimes cannot even cover their cost of production. In addition to this forced sales are made to clear the debts immediately. Hence the defective agricultural marketing system in our country is adversely affecting the marketing efficiency of the farmers.

**FDI reforms A view on retail Sector**

In India FDI in retail sector is limited. Even though FDI in agricultural retailing is viewed as a magic wand it is prohibited in the retail sector due to the threats arisen by the global experiences and strong opposition from local retail market. The government reduced retail policy for the first time in the year 2016 permitting 51 % FDI in single brand retail. Subsequently, a stable increase in FDI in the retail sector was observed. Hence many foreign companies entered Indian retail sector to cash the opportunity. Retail reforms announced by the central government in 2011 and 2012 for both and single brand multi-brand stores created an environment for retail innovation and competition in Indian organized retail market.

In order to make the agriculture sector profitable the rules and regulations regarding FDI are liberalized. FDI up to 100% is allowed in pisciculture, floriculture, horticulture, apiculture, cultivation of vegetables, mushrooms, and animal husbandry under controlled conditions. 100% FDI is also permitted in services related to agro and allied sectors. With prior permission from government up to 100% FDI is permitted in tea plantation. Besides the above, FDI is not allowed in any other agricultural sector/activity. This move has boosted the investment climates in the Indian retail space which has very significant implications in economic development of a densely populated country like India.

**Opportunities for investment of FDI**

It is believed that FDI in public sector and retailing will change rural economy and adequate flow of foreign capital will promote the welfare of farmers and consumers by raising the income of the farmers and by lowering the consumer price inflation. From 2006 onwards there has been a steady increase in FDI in the retail sector, when the government lifted the restrictions and opened doors for foreign investors. The revolutionary measures taken by the government also reveals that it has the strong opinion about the positive effects of FDI. The concern about FDI has been visualized in these reforms. These reforms have been backed by the large farm lobbies as the original producers will get a higher price and the improved standards in agricultural marketing help the farmers in securing reasonable prices for their products.

It is believed that foreign investment in agricultural retailing would help the farmers to adopt new technology in marketing in the sphere of processing, grading, handling and packing of goods. The FDI in agriculture also create many employment opportunities by expanding the markets for agro-products. Though the cultivation of fruits and vegetables in India is very high the integrated cold-chain infrastructure facilities are limited. Hence the defective agricultural marketing system can be cured by FDI as it will provide marketing facilities to the farmers. It is believed that foreign investment in agricultural retailing would help the farmers to adopt new technology in marketing. The advocates of FDI also believe that FDI in food based retailing will help in improving supply chain and provide infrastructure. Farmers will receive credit and technological support from the industries with whom they have sale contracts. The uncertainty of prices in the farm sector can be minimized and the farmers can be assured of remunerative prices for the products.

INTERNATIONAL JOURNAL OF MULTIDISCIPLINARY EDUCATIONAL RESEARCH
ISSN:2277-7881; IMPACT FACTOR :8.017(2023); IC VALUE:5.16; ISI VALUE:2.286
Peer Reviewed and Refereed Journal: VOLUME:12, ISSUE:3(6), March: 2023
Online Copy of Article Publication Available (2023 Issues)
Scopus Review ID: A2B96D3ACF3FEA2A
Article Received: 2nd March 2023
Publication Date:10th April 2023
Publisher: Sucharitha Publication, India
Digital Certificate of Publication: www.ijmer.in/pdf/e-CertificateofPublication-IJMER.pdf

Cover Page

DOI: http://ijmer.in.doi./2023/12.03.119
www.ijmer.in

Agriculture occupied a prominent place in Indian economy. The economic and social life of the Indians is closely associated with agriculture. Introduction of FDI in agricultural retailing has created an anxiety among the people. No of questions is being raised about its positive and negative effects on agriculture. The advocates of FDI believe that FDI in agricultural retailing will help in improving supply chain, infrastructure and ensure economic security for farmers through the elimination of middle in the country. On the other hand several eminent personalities and experts have raised concern and cautioned against the introduction of FDI in retail in India. According to Prof.M.S. Swaminathan (2013), FDI in agriculture should be discussed carefully as it influences the larger section of the people who barely depend on it. According to the Report of CAIT (2012), FDI in retail will lead to unfair economic competition and foreign retail chains will not benefit Indian farmers. It is also argued that foreign companies in initial years offer low prices and attractive methods are used to increase their revenue. Lower price will always be good for any customer, but at the same time it hurts the primary producers. This practice has been known as Predatory pricing which in long run wipeout economically weaker competitor from market. Gradually this practice makes the farmer to quit the agriculture.

**What need to be done?**

Majority of people in our country depends on agriculture for their livelihood. Agriculture is the main source of supplying raw material to all agro-based industries like Textiles, Jute, Sugar, Edible Oils, fruits and vegetables etc. Moreover, small scale industries like handlooms, coir, paper and rice mills are also dependent on farm sector. So the development of agricultural sector directly influences the growth of all these industries. Permitting foreign investment in food-based retailing will help the farmer to minimize wastages caused by improper storage facilities. The entries of foreign companies into Indian agricultural retailing not only create employment opportunities but also enhance the supply chain efficiencies. Intensive competition among the firms is bound to pull up quality standards and cost competitiveness. Now the consumer is in a position to choose many varieties with reduced prices. FDI in agro-retailing will provide economic security for farmers through the elimination of middle men and integrate the Indian agricultural retail market with that of the global retail market. FDI in agricultural retailing must be dealt with cautiously as it has direct impact on the economy. The majority view is that FDI in retail will have an adverse effect on farmers. It has been argued that big retail chains will squeeze out the profits of the farmers. In the process of cost cutting, the farmers have been forced to quit the agriculture.

**Summing up**

The growing concern for foreign investment in agricultural retailing particularly developing countries where more than two third of population depends on agriculture sector, led to experimenting with FDI for the development of the poor. Some global experiences were proved to be very effective. Economic growth with social justice is primary concern of our Five year plans. From the above discussion it is clear that the Government is making all efforts to liberalize the regulations for FDI. Hence the government should choose an ideal or optimum solution which not only protect the interests of the small agro-retailers but also avoid conflict between economic growth and social justice. Steps should be taken to strengthen the current policies and support the small scale agricultural retailing. However, FDI in agricultural retailing will strengthen organized retail in the country. There is a fear that the existing companies may not be able to compete with big global giants and the position of the Indian farmers will become more worsen by the entry of the MNCs. Hence the government of India must be cautious about the objections raised by the critics and adequate safe guards and corrective measures must be taken to protect the economically weaker competitors.

**References**:

1. Misra and Puri, Indian Economy,, Himalaya Publishing House, 2022, P 239.
2. Abhishek Rao et.al, FDI in Retail and its influence on Indian Agriculture, IOSR Journal of Business and Management (IOSR-JBM) e-ISSN: 2278-487X, p-ISSN: 2319-7668 PP 58-63 www.iosrjournals.org, 2016.

3. Global Retail Development Index, AT Kearney, 2011.
4. M. Roy and S. Kumar, Foreign Direct Investment in Agricultural Retailing in India, P.224. http://psrcentre.org /images/extraimages/312120.pdf.
5. Rajib Bhattacharya, The Opportunities and Challenges of FDI in Retail in India, IOSR Journal Of Humanities And Social Science (JHSS), Volume 5, Issue5 (Nov-Dec, 2012 ), P.107
6. Deep Ray, Impact of FDI in Retail on Indian Agriculture. http://ssrn.com /abstract=2417205.
7. MS. Swaminathan, MS. Swaminathan wary of FDI in Retail, Nov.30.2011, http://www.deccanchronicle.com/channel/cities/chennai/ma-swaminathan-wary-fdi-retail-305, (May8, 2013).
8. Implications of Foreign Direct Investment in Retail on Indian Farmers (2012), Published by Confederation of All India Traders (CAIT), P. 5. www.cait.in (e books –English pdf).
9. S.Mahendra dev: Inclusive growth in India – Agriculture poverty and Human Development oxford university press New Delhi 2008.
10. Vijay Kelkar : Financial inclusion for Inclusive growth N.P Sen memorial lecture at ASCI Hyd. January 13, 2008
11. L.K. Advani : Good Governance is key to Inclusive growth address to Annual conference of CII April 30, 2008.
12. Archana G. Gulati: Ensuring Inclusive growth kurukhestra June 2020.
13. Subir Gokarn : Inclusive growth in India Is a dream or reality excerpted from 8th Dr.R.L.Sangvi Annual memorial address endowment lecture ahamadabad December 6, 2007.
14. Inclusive growth Consultation: New Delhi August 29, 2007.
15. Bebek Debrai and Laveesh Bandari: Inclusive growth - Inclusive inequality inaugural address at RBI Mumbai June 29, 2007
16. Dr.Manmohan Singh : Inclusive growth – Challenges for Corporate India address at CII annual general meeting at New Delhi May 24, 2007.
17. Economic Survey 2006 – 07 Government of India. Aug. 2013.
18. Raddar Dutt & K.P.Sundaram : Indian Economy Chand Publications, Aug. 2013