

Foreign Direct Investment: A Comparison of Dragon and Elephant in Agri Food Sector

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Abstract

India and China, each giants of Asia are two in the oldest and living civilizations worldwide. Being neighbors India and China had established trade and cultural relations for hundreds of years. This discussion summarizes the findings of any volume of studies on Foreign Direct Investment that had been happy to compare the rural development and agricultural reform experiences of China (the dragon) and India (the elephant) over the past several decades.

Keywords

FDI, Foreign Direct Investment, Agri food Sector, SOE, State Owned Enterprises, RNF, Rural Non Farm.

Introduction

India and China, both giants of Asia are two with the oldest and living civilizations around the globe. Being neighbors India and China had established trade and cultural relations since time immemorial. The exchange was facilitated through the four routes of communications namely, the Central Asian Route or the so-called Silk Route; Assam-Burma and Yunnan Route or famous Southern Silk Route; Tibet Nepal Route; and the Sea Route and the so-called Maritime Silk Route. The Chinese people pronounced him to be a symbol of 'eastern civilization.' The Chinese media paid utmost attention and widely covered the Indian freedom struggle in numerous newspapers and journals. Over the War of Resistance and also the Second World War, provided China suffered at the hands of Japan, the reverberations were felt in India too. India dispatched a medical mission to China in 1938.

India and China would necessarily come closer to each other to the vast and tremendous potentials of economic cooperation within a new world after the war. The need of the hour is usually to build mutual trust, resurrect our centuries old sentiments with a brand new zeal, exploit our potentials and usher in a new whole world of economic cooperation and friendly relations. The increase rates of agriculture and the incidence of poverty inside pre and post reform periods show that in China it had been primarily the acceleration in agricultural growth from 1978 to 2002 (4.6 % each year, compared to 2.5 % a year from

1966 to 1977) that resulted in the cut in poverty from 33 % on the population in 1978 to three % in 2001. The most substantial decline happened the first phase of reform, from 1978 to 1984, when agricultural GDP jumped to 7.1 % each year as well as the %age of rural poor dropped from 33 to 11 % on the population. However, it can be clear that in India slower rise in agriculture was the major cause of the laggardly performance in poverty reduction, although overall economic growth was high.

From 1980 to 1990, agricultural Gross Domestic Product (GDP) grew at 2.9 % every year compared to 2.7 % per year between 1991 and 2003. It might be argued that there seemed to be acceleration in agricultural growth soon after the beginning of reforms between 1991 and 1997, when agricultural GDP grew at 4.1 % per year before decreasing to 2 % p.a. after 1997. In China the rapid development of the Rural Non Farm (RNF) sector subsequently encouraged government entities to flourish the scope of policy changes and hang pressure on the urban economy to reform, since nonfarm enterprises in rural areas had to be competitive compared to the State Owned Enterprises (SOEs). Reforms with the SOEs subsequently triggered macroeconomic reforms, opening the economy further. In India, reforms followed a contrary path; you start with macroeconomic and non agricultural reforms from when they were prompted by macro imbalances. The reforms resulted in impressive rates of economic rise in the 1990s, but, being tied to the non agricultural sectors, they did not have significant affect poverty reduction. Policy changes in connection with agriculture occurred only at later stages and in many cases then were only partial. Therefore, the evidence point's too successful agriculture-led reforms reduce poverty faster. Today after we talk of 'strategic partnership' between India and China as well as future, a similar has to be viewed from the larger perspective of India China historical bonds vis-à-vis their interests and future outlook.

During the last two decades the insurance policy stance of governments in emerging markets towards Foreign Direct Investment (FDI) has changed dramatically. It's been from the mounting proof of the positive association of FDI with an increase of growth rates as well as in improvements in Total Factor Productivity (TFP). Notwithstanding demands a nuanced assessment in the spillover great things about FDI from some observers, FDI is a lot popular by governments seeking a catalyzing boost to economic growth through technology transfers, employment generation, improved having access to managerial expertise, global capital and product markets, marketing and distribution networks. Multinational Enterprises (MNE) seeking a global rate of profit is usually unsentimental about where it really is achieved. An association of the global trend towards increasingly liberal trade and investment regimes and fierce competition to draw in investors is the desire for serious investment and leadership by governments and their agents at many levels, to build and maintain the required business-friendly policy environment.

Investment in Agriculture Sector

In India, the decline in rural public investment – associated with fiscal profligacy; rising agricultural subsidies on fertilizers, power, and water; and price support – is regarded as one of the causes of deceleration in agricultural growth. In China, the correlation between the initial conditions and achievements in poverty reduction and in growth after reforms makes the case for stepping up government investments in rural infrastructure and social

services. Various studies have found that agricultural research, education, and rural roads are the three spending areas that hold the greatest potential to promote agricultural growth and poverty reduction in both the countries.

Technology in Agriculture Sector

Poor limited possibility to expand cultivable land and water resources, farm growth according to yield instead of area can become much more important, thereby helping the dependence on agricultural research and technology development. Within a bid to boost research funding, China promoted the introduction of the population business sector through commercialization of technologies by public research institutes. However, this often led to the duplication of research and overlapping of efforts with state-owned traditional research institutes. The Chinese experience can supply valuable lessons therein sector for other countries in transition.

Both China and India have created nationwide agricultural technology Research and Development (R&D) system networks and are comparatively strong within this field. They need to encourage mutual sharing of similarly information on agricultural biotechnology, cropping and farming practices and methods of agricultural extension, by using high-yielding models of seeds, water management practices, farming practices - both under land and irrigated systems, mechanics of agricultural extension work, and ways of soil conservation.

Irrigation in Agriculture Sector

Supplying the right incentives to farmers is crucial to advertise water saving. Low tide prices and profligate subsidies on power for operating tube wells encouraged wasteful using water and depletion of groundwater resources. In India, irrigation is impacted by politicization, as free electricity for pumping water emerged as political rent seeking. Within countries, given the booming numbers of private driven well owners, the impact of reforms such as withdrawal permit systems and volumetric charging will be limited by the weak institutional and infrastructural contexts that produce monitoring and enforcement of water withdrawals and revenue collection difficult. Along with better water productivity, an increasingly efficient use of scarce water resources in agriculture could also come from improved crop yields. To this effect, we have a need for deployment of inputs besides water, like credit and agricultural research on water-saving and yield-improving technologies. Many of the true for India, where both irrigated and rain fed crop yields are lower than those who work in China.

Ambiguous water use rights following de collectivization in China, and laws linking water rights to land ownership in India, also triggered inefficiencies. These included the emergence of unfair water markets after a while, by which rich landholders who can afford modern water extraction technology profit by selling water to poorer cultivators. Increases in water use charges may not be feasible inside the short to medium term without changes in the institutional environment.

In both countries, this can also request trade and price policies which might be favorable to high-value, less-water-intensive crops. In India, given the political and institutional constraints, technological innovations to enhance yields seem more feasible inside the short and medium term than management reforms to improve water use efficiency. In the context of raising crop productivity and improving water use efficiency, a unique strategy becomes necessary for rain fed areas: research has shown high marginal returns on investments in terms of both agricultural growth and poverty reduction in rain fed aspects of both countries. Although irrigated agriculture is and can remain crucial in both countries, increased rain fed production can have a significant effect on future agricultural production and poverty alleviation. To increase rain fed production, an environmentally friendly revolution form of strategy between use of inputs like credit, fertilizers, machinery, and technology to boost crop productivity joined with policies favorable to high-value agricultural commodities should be used. However, not enough control over water in rain fed agriculture raises the risk of adopting High Yield Variety (HYV) technologies and demands the development of risk (crop) insurance schemes in rain fed areas. Special mention has to be made of the point that remarkable development and growth, in the China and India, were achieved whilst aid like a %age of GDP inside two countries remained in a low-level.

Trade and Domestic Policies in Agri Food Sector

The pre-reform period in India, from 1951 to 1990, was dominated by the Green Revolution, which played a vital role in meeting the nation's food demand, lowering the rate of rural and urban poverty, and building the walls for overall national economic growth. The reforms unfolded in three different phases. The first phase (1991–94) involved changes to a broad group of policies outside agriculture, creating pressure grant reforms to agricultural policies. The second phase (1994–98) brought the leading sector beneath the purview of reforms that aimed to gradually decontrol agricultural trade flows. On account of a series of unilateral government initiatives and, to your lesser degree, in response on the signing with the Uruguay Round Agreement on Agriculture (URAA) underneath the World Trade Organization (WTO) in 1994, the sector underwent limited changes. The third phase (1998 for this) extended reforms to domestic agricultural marketing but left the traditional support systems of input subsidies, food procurement at subsidized prices over the Public Distribution System (PDS), as well as the Minimum Support Prices (MSPs) largely unaltered.

The liberalization of trade policies that may expose the economy to increased competition from abroad. In India, the abolition of restrictions on trading about the futures markets for major agricultural commodities is usually a promising step. An added important area is the strengthening with the network of support services for small farmer's related information, credit, and extension. India is in front of China in these areas, particularly pertaining to the institutional infrastructure of rural credit and marketing. The Indian experience demonstrates that smallholder agriculture needs strong institutional support in these areas growing and prosper. Regarding trade liberalization, both countries made progress in reducing protection levels but the weighted average tariff in India, at 29 %, is sort of double China's 16 %. India may be able to sustain its current growth rate with lower FDI inflows plus a relatively lesser export orientation than China. If India should be to reach

the target of 8 % increase in GDP it should follow through with FDI reforms in view in their possible ways to transfer know-how, managerial skills, and new technologies.

China typically offers valuable lessons in this region. In agriculture, both the countries still must look at the short-term adverse reactions with the inevitable restructuring and adjustments interested in opening trade flows of agricultural commodities. Domestic producers of crops that the country lacks a comparative advantage (by way of example, edible oils in the case of India and wheat and maize for China) will likely suffer increasingly from falling prices induced by a rise in imports. They will also be negatively affected when governments are pressured to reduce support for inefficient national production.

Comparison of Economic Performance

Continued rural growth is necessary for both countries to be able to provide employment together with markets for industrial products. More importantly, it is advisable if national poverty is usually to be alleviated and, ultimately, eradicated. Three main options for rural growth are identifiable that will push both countries' production frontier outward sometime soon. First is agricultural research and technology that may increase crop yields and quality.

Although China has yields which can be normally double your India, there exists still potential to increase them in the poorer western provinces. Similarly, there may be scope for narrowing the gap in productivity among regions within India, the place that the highly irrigated aspects of Punjab and Haryana show yields of 5–6 tons per hectare in contrast to 2 tons per hectare on average inside the eastern states. Agricultural growth will rely heavily on yield improvement on account of increasing population pressure on land plus the limited possibility to expand land for cultivation in the future. An International Food Policy Research Institute (IFPRI) study in China found that this marginal return on investment in lower-quality roads (mostly rural roads) might be more than four times more than that in high-quality roads.

In India, another sector through which public spending is required to produce higher growth is irrigation. The continent's potential gross irrigated area is 140 million hectares, as the actual irrigated area is around 90 million hectares. Undoubtedly, an investment enables the utilization of unexploited potential. However, the question which needs to be addressed is the scarce resources should be redirected toward improving the management of existing water systems through watershed development and user groups or toward the development of irrigation systems through new projects. The energy sector is another critical division of future reforms in India. Roughly states at the moment are losing nearly 1 % of GDP caused by distribution losses, amounting to some whopping 35 – 50% of total revenue, compared to the expected 10 – 15%. This inefficiency need to be tackled if India is to sustain its current rate of growth and further accelerate to the target of 8%.

Third, high-value agriculture and vertical integration hold a great deal of promise to be a method to obtain future increase in both countries. Diversification from low-value food

grains to high-value commodities must be encouraged, as horticulture, livestock, and fishery provide high returns and are labor-intensive in the wild. Moreover, these specialties have the prospect to create employment in agro processing and retail chains. Vertical combination through innovative institutions (including contract farming) is important in reducing transaction costs and marketing risks. In India, the challenge lies in determining the way to reorient the policy environment, which is still aimed toward wheat and rice, toward high-value products that entail new institutions and marketing facilities because of their perishable nature. Furthermore, diversification really should not be available to farming alone, as rural income enhancement requires rise in nonfarm employment. This calls for overcoming infrastructure bottlenecks, which severely affect the roll-out of rural industries and services, and increasing human capital over the provision of education for your poor. China can also be up against specific challenges inside the development of its RNF sector. The raised competitiveness caused by economic globalization poses challenges to rural Township and Village Enterprises (TVEs) with regard to management and technical efficiency. The reform of macro policies directed at enhancing usage of credit and specialized firm services, which might be less favorable to labor-intensive enterprises, represents one more challenge.

Achieving a rise in Total Factor Productivity (TFP) from the agricultural sector is conducive to higher growth and is an ambition inside of it – that has a compilation of challenges. First, inefficient agricultural subsidies need to be phased out, which will possess the added selling point of freeing funds for productive investments, particularly in India, where subsidies are about 5 to 6 times above investments in rural areas. Now you ask, get rid of inefficient support without creating political instability. Next, it is critical to produce a conducive policy and institutional environment, as this is a necessary precondition for improving the efficiency with the provision of public investments and services and which makes them more pro-poor.

Third, a crucial source of efficiency improvement might be extracted from greater economic integration with world markets. The further opening of these two economies would involve numerous reforms on various fronts, including investment; use of foreign inputs, technology, and managerial skills; reduction in price distortions between domestic and international markets; and improvement in quality and safety standards. Related challenges are of upgrading both bilateral and multilateral trade.

Trade relations between India and China, currently much below potential, particularly in agricultural products, would benefit rural places where the poor are concentrated. One cause of cooperation from the context with the WTO is based on the same role of agriculture as the major single way to obtain employment within the Chinese and Indian economies. Another reason why comes from the possible great things about international trade. If your efforts of developing countries beneath the leadership of India and China, to boost trade liberalization are successful, the WTO can improve export and employment prospects inside the labor-intensive manufacture of horticulture, livestock, and fisheries, which might be areas during which India and China possess a comparative advantage.

The WTO even offers the opportunity to accelerate the development of employment in labor-intensive industries, facilitating the shift on the rural workforce beyond agriculture, given that you'll find educations and skill development opportunities.

Conclusion

Investment in rural education will probably be crucial in increasing farmers' capacity to leave farming. It will likewise make a difference to enhance investments in rural R&D and infrastructure so they can improve productivity.

It should be proposed that these two sides should strengthen their cooperation in food safety, inspection and quarantine of animals and plants, and also, their processed products. They ought to begin a mechanism for cooperation on health quarantine and inspection. Conclusion of China- India Pre-Shipping Examination Agreement will probably be of great help for the reduction of non-tariff trade barriers, as it will effectively form an environmentally friendly channel for commodity flow.

Rural development is often a major part of policy concern in the countries. Both China and India may benefit by sharing their policy approaches and experiences, including agricultural development policy, building of rural social security, agricultural science and technology, reducing rural poverty and unemployment, rural financing together with pricing, marketing and distribution networks. The Joint Study Group (JSG) recommends the respective authorities may organize joint seminars and workshops devoted to rural development, emphasizing the institutional set-ups (including government and non-governmental agencies, donors, and credit-delivery mechanism) inside the two countries.

Exchange of information about policies and experiences in rural development, China makes significant achievements in adopting your family contract responsibility system, developing TVEs and transferring rural labor pool to industry and service sectors. China has evolved a system of "food security", covering food grains, sugar and several from the oilseeds. India has made outstanding achievements inside "Green Revolution", "White Revolution" and "Blue Revolution", as well as in dissemination of data in rural areas and in provision of infrastructure. Also, India has achieved significant successes in developing an elaborate network of grain reserves and procurement and distribution system. The farming practices in India are increasingly being mechanized.

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The personnel of agricultural departments, agricultural economic organizations and research institutions of these two countries should pay more visits together to exchange their experiences in agricultural development, bilateral and multilateral trade status and agricultural research. They are able to also jointly organize education. Colleges, universities and research institutions of these two countries can hold seminars and

academic conferences, and conduct exchanges and joint research in innovation and management in agricultural science, bio-technology, anti-insect measures and industrialization.

Strengthening agricultural technology cooperation, both China and India have setup nationwide agricultural technology R&D system networks and so are comparatively strong on this field. They should encourage mutual sharing of similarly information on agricultural bio-technology, cropping and farming practices and techniques of agricultural extension, using high yielding models of seeds, water management practices, farming practices - both under earth and irrigated systems, mechanics of agricultural extension work, and types of soil conservation. Strengthening cooperation from the prevention and curing of plant and animal epidemic diseases, China and India should strengthen coordination and information exchange inside the prevention and control of epidemic diseases.

Both countries should identify areas of complementarities in trade relating to the two countries. There is certainly scope for export of agricultural products, for example, rice, wheat, sugar, oil seeds (sesame seeds), oil meals (of soybean and rapeseed), oil (groundnut and castor), fruit and veggies, milk and milk products, processed food, and plant process machinery in food processing sector from India to China.

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