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Role of FDI in Fertilizer Industries in India

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Abstract

One of the most striking developments during the last two decades is the spectacular growth of FDI in the global economic landscape. This unprecedented growth of global FDI in 1990 around the world make FDI an important and vital component of development strategy in both developed and developing nations and policies are designed in order to stimulate inward flows. Infect, FDI provides a win – win situation to the host and the home countries. Both countries are directly interested in inviting FDI, because they benefit a lot from such type of investment. The 'home' countries want to take the advantage of the vast markets opened by industrial growth. On the other hand the 'host' countries want to acquire technological and managerial skills and supplement domestic savings and foreign exchange. The proposed paper shares with some theoretical and data information's such as overall FDI, inflow of FDI in India, status, present targets, conclusion respectively.

Keywords: FDI, RBI, Ministry of fertilizer and chemical Industries

Introduction

Foreign direct investment in India

The Indian government made several reforms in the economic policy of the country in the early 1990s, which helped in opening the country's markets to foreign direct investment. The government of India, in order to increase the flow of FDI in the country, simplified the procedures for FDI in the country. FDI in India comes through non- resident Indians, international companies, and other foreign investors.

Chemicals industry in India

The chemicals industry in India was worth more than US$ 40 billion in 2004- 2005. The industry of chemicals in India is an important part of the economy of the country, for it constitutes around 6% of the country's GDP. The total amount of exports from the chemicals industry in India stood at US$ 12 billion in 2004- 2005. The chemicals industry in India produces over 70,000 varieties of products.

FDI policy in chemicals industry in India

- Up to 100% Foreign Direct Investment (FDI) is allowed through the automatic route for all the items in the chemical industry except for the chemicals that are of hazardous nature for which the approval of the government is required.
- The government plans to establish chemical parks in SEZs in order to provide world class infrastructure, increase clustering, and also ensure concessions in tax.

Amount of FDI inflows to chemicals industry in India

FDI Inflows to Chemicals industry in India has registered significant growth in the last few years. The total amount of FDI Inflows to Chemicals industry in India stood at US$ 1,316 million between 1991 and 2002. International companies having operations in chemicals industry in India are:

- Dow Chemical
- BASF
- Du Pont
- Bayer

FDI inflows to chemicals industry in India has given boost to the industry:

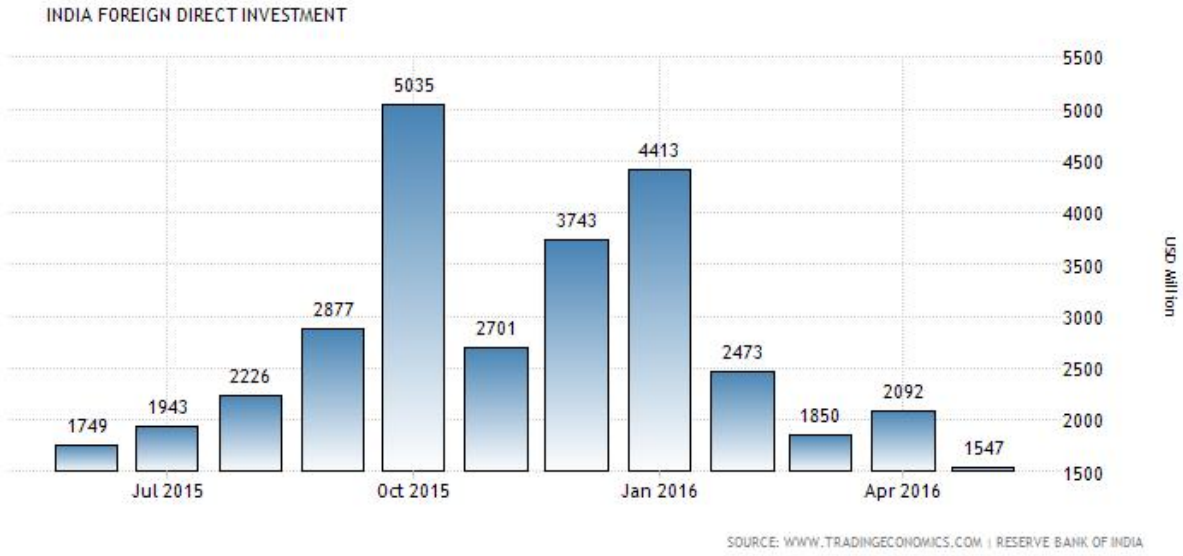
The increased flow of foreign direct investment in the chemicals industry in India has helped in the development, expansion, and growth of the industry. This in its turn has led to the improvement of the quality of the products from the industry.

There is a considerable decrease in the tariff rates on various importable goods. FDI inflows in India from1948 – 2010. FDI inflows during 1991-92 to March 2010 in India increased manifold as compared to during mid 1948 to march 1990 (Chart-1.1). The measures introduced by the government to Liberalize provisions relating to FDI in 1991 lure investors from every corner of the world. There were just few (U.K, USA, Japan, Germany, etc.) major countries investing in India during the period mid 1948 to march 1990 and this number has increased to fifteen in 1991. India emerged as a strong economic player on the global front after its first generation of economic reforms. As a result of this, the list of investing countries to India reached to maximum number of 120 in 2008. Although, India is receiving FDI inflows from a number of sources but large percentage of FDI inflows invested with few major countries. Mauritius, USA, UK, Japan, Singapore, Netherlands constitute 66 percent of the entire FDI inflows to India. FDI inflows are welcomed in 63 sectors in 2008 as compared to 16 sectors in 1991.

Historical Development

Chemical industry is one of the oldest industries in India. The industry, including petrochemicals, and alcohol-based chemicals, has grown at a pace outperforming the overall growth of the industry. The Chemicals Industry comprises both small and large scale units. The fiscal concessions granted to small sector in mid-eighties led to establishment of large number of units in the Small Scale Industry (SSI) sector. Currently, the Indian Chemical Industry is in the midst of major restructuring on product innovation, brand building and environmental friendliness, this industry is increasingly moving towards greater customer-orientation. Even though India enjoys an abundant supply of basic raw materials, it will have to build upon technical services and marketing capabilities to face global competition and increase its share of exports. Chemical fertilizers and pesticides played an important role in the "Green Revolution" during the 1960s and 1970s. The consumption of pesticides in India is low in comparison to other countries. Indian exports of agrochemicals have shown an impressive growth over the last five years. The key export destination markets are USA, UK, France, Netherlands, Belgium, Spain, South Africa, Bangladesh, Malaysia and Singapore. The Government is promoting research on the use of alternative and unharmful pesticides using Need seeds. A country programmed entitled "Development and Production of Need Products as Environment Friendly Pesticides" is being undertaken by the Department of Chemicals and Petrochemicals with the financial assistance of United Nations Development Programmed (UNDP)/United Nations

Industrial Development Organization (UNIDO). The project is being implemented at two locations viz., Nimpkish in West Bengal and Nagpur in Maharashtra to promote production, processing and use of need-based products, thereby aiding wasteland development, generating rural employment and providing farmers with eco-friendly/bio-degradable pesticides. Petrochemical industry is a cyclical industry. Globally the petrochemical industry is characterized by sluggish demand and volatile feedstock prices. In India, consumption of petrochemical products is still one of the lowest in the world. For example in case of polyester, India's per capita consumption is 1.4 kg compared to 6.6 kg for China and 3.3 kg for the world. In case of polymers, per capita consumption of India is 4 kg and is about a fifth of the world. Demand for the petrochemicals products has grown in double digits for a long period.



Pesticides and Agrochemicals

India is currently the largest manufacturer of Pesticides in Asia, second only to Japan India’s pesticide market, long stifled by various government controls and poor demand, is projected to more than double to $5 billion by 2017 on higher incomes and better awareness among Farmers are getting higher MSPs minimum support prices) of crops than in the past, and they know how much they will lose if they don’t prevent crops from pest or insect attacks. Also, as farm practices are improving, the use of pesticide will get a boost. During the last five-year Plan,

through 2011-12, the government raised MSPs of various crops in the range of 29% to 107%. Moreover, India's per capita pesticide consumption of 600 gm is far below its major Asian peers —14 kg in China and 12 kg in Japan. The domestic market has immense growth potential because of the low level of consumption. With increasing focus on scaling up of productivity and preventing crop losses to feed a billion-plus population with limited land resources, the reliance on pesticide is only going to rise. The Indian pesticide industry has advanced significantly in recent years, producing more than 1,000 tons of pesticides annually. India is the 13th largest exporter of pesticides and disinfectants in the world, and in terms of volume, is the 12th largest producer of chemicals. However the average Indian consumption is very low, merely1/20th of world average. Consumption varies depending on crop and region Cash crops like sugarcane, tobacco etc. are the major consumers of pesticides (above 60per cent) there are two types of producers out of them there are about 40 Technical producers and above 500 formulators. United Phosphorus, Rallis and Excel are the major Indian players. Multinational like Hoechst, Aggreko, Novartis, Bayer etc has significant share in the matter.

Present status of the chemical industry

With Asia's growing contribution to the global chemical industry, India emerges as one of the focus destinations for chemical companies worldwide due to high domestic demand, significant knowledge pool and favorable demographic dividend. The Indian chemical industry, estimated to be $108 billion, is at the threshold of accelerated growth. Indian chemical sector ranks 6thin the world and3rdin the Asia. It is also one of the largest industrial sectors in the Indian economy and an important employment generator. The Indian Chemical Industry comprises both small and large-scale units, and presently, there are about 40,000 chemical manufacturing units located in the country out of which about 80% are covered in the small scale sector. This sector provides employment to about 3.3 million people. There are no quantitative or other restrictions on the import of chemicals except for few chemicals which are covered under the obligations as per International Conventions. Indian chemical industry exports dyes, pesticides and specialty chemicals to the developed world and to the developing countries which form about 3% share in the global market and contributes significantly to the foreign exchange basket of the country. The fiscal concessions granted to small scale sector in mid-eighties led to the establishment of a large number of units in the Small Scale Industries (SSI) sector. In the chemical sector, 100%

FDI is permissible under automatic route. Manufacture of most chemical products inter-alia covering organic / inorganic chemicals, dyestuffs and pesticides is de-licensed. Entrepreneurs need to submit only IEM (Industrial entrepreneurs Memorandum) with the Department of industrial Policy and Promotion to set up chemical manufacturing. Only the following items are covered under the compulsory licensing list because of their hazardous nature:

- Hydrocyanic acid & its derivatives
- Phosgene & its derivatives
- Isocyanides & di-isocynates of hydrocarbons

The basic customs duty on most chemical feedstocks is 2.5%. Import Duty on most of the chemical products is at 7.5% ad valorem. In neural, the central excise duty rate for chemical sector is about10%.

Vision, targets and future thrust areas

The Indian chemical industry is poised for growth, and a clearly defined vision has been developed to enable it. Vision for Indian Chemical Industry is:

- To facilitate the growth and development of the chemical industry in an Environmental friendly manner; with focus on innovation to meet local needs, sustainability and Green technologies and processes; so as to enable it to become a globally competitive major-player two distinct scenarios for the future of the Indian chemical industry would emerge.

- The conservative scenario, with an overall GDP growth rate of 8-9% path Indian chemical industry could grow at 11% p.a. to reach the turnover of $224 billion by 2017. However, the Indian chemical industry could aspire to grow much more and its growth potential is limited only by its aspiration& imaginations.

- The optimistic scenario of high end–use demand, based on increasing per capita consumption, improved export competitiveness and resultant growth impact for each sub-sector of the chemical industry could lead tan overall growth rate of 15% p.a. to reach turnover of $290 billion by 2017. This would require the industry to not only effectively meet its domestic demand but also exploit the huge export market potential. The evolution of the chemical industry globe Lily provides valuable pointers to understand how countries/ regions have ensured growth. For

example, the European chemical industry, faced with a structural framework of limited carbon Based feedstock availability, focused on specialty chemicals segment which has A much lower dependence on raw materials than base chemicals. Effective utilization of its strengths in technology and access to markets enabled the growth of specialty chemicals segment which currently accounts for 40% of the total chemical sales (excluding pharmaceutical) in Europe. Simultaneously, European chemical companies set up subsidiaries in oil-producing countries to minimize feedstock risk. Likewise, the Japanese chemical industry grew significantly based on government initiatives such as low interest rates, policies to encourage imports of raw material and technology rather than finished products and invested in setting up of large petrochemical complexes. This was complemented by a strong R&D focus in particular from the late 80still early nineties, basically "innovating" out of the less favorable position at that time. Indian chemical industry could draw inspiration from these examples and provide the necessary Thrust for development of specialty chemicals industry to bypass feedstock availability challenges. Thrust areas for chemicals include specialty chemicals developed in close-collaboration with End-user industries, green chemicals, feedstocks, etc., including bio-fuels, and exploiting export opportunities for generic agrochemicals and pharmaceuticals.

Conclusion

The economic reforms of 1991 had a significant impact on the domestic chemical industry. With the onset of liberalization, the hitherto protected industry was exposed to international competition, which had been insulated so far by keeping high tariffs and import substitution centric policies. With the advent of liberalization, the role of the public sector substantially reduced, and the focus of the industry gradually shifted from base chemicals to petrochemicals, pharmaceuticals, specialty chemicals, construction chemicals, dyestuff and a wide range of agro-chemicals.

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