

NEED OF FDI IN INDIAN PROCESSED FOOD SECTOR

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Introduction

Agriculture is an important sector of the Indian economy and accounts for almost 19% of Indian gross domestic products (GDP). However, in terms of FDI this sector lagging far behind.

“FDI in agriculture is not required. We have about 82-86 per cent farmers whose land-holding is below two hectares. In this type of a situation where the land-holding is small, we should not think of encouraging FDI in the agriculture sector,” “I can understand FDI in agro-processing. We will welcome FDI in cold chains and in agro-processing, but not in farming.” [Food Processing Minister Sharad Pawar].

Food processing sector has been attracting substantial FDI also and is among the top ten sectors getting FDI equity. FDI up to 100 per cent equity is permitted under the automatic route in food and infrastructure like food parks and cold chains. There are many areas for investment in this sector which include mega food parks, agri-infrastructure, supply chain aggregation, logistics and cold chain infrastructure, fruit and vegetable products, animal products, meat and dairy, fisheries and seafood cereals etc.

Under this back ground the present work aims to study the inflow of FDI in Food Processing Industry in India.

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Research Methodology

Objective: The specific objectives of the paper are as follows:

- O1. To study the need of Food Processing Sector in India
- O2. To study growth rate of FDI in the food processing sector in India.

The study is essentially an analysis of secondary data. The data was collected from ministry of Food Processing Industries, Department of Industrial policy and promotion, RBI bulletin, Economic Survey and various website. Year to Year Growth rates have been calculated.

Result and Discussion

Why foreign Investment in Processed Food Sector?

There are several reasons of Foreign Investment in Indian processed food sector. In general the following points can be mentioned against it:

1. Vast source of raw material: India already has all the requirements for a head-start in the food-processing industry. Basic raw materials such as foodgrains, pulses, vegetables and meats can be sourced locally or easily imported if local availability is inadequate.
2. Conventional farming to commercial farming: Diversification from conventional farming of food grains to horticulture, ornamental crops, medicinal and aromatic plants, spices, plantation crops is one of the main reasons of attracting FDI in India
3. Cheap Labour: India's comparatively cheaper workforce can be effectively utilized to setup large low cost production bases for domestic and export markets.
4. Technological factor: Many Indian firms are eagerly seeking foreign partners for joint-ventures to avail of their technological advantage.
5. Licensing: No industrial license required for food and agro processing industries except for alcoholic beverages and items reserved for small scale sector.
6. Excise Duty: Fruits and vegetables products completely exempt from Central Excise Duty.

7. Life style: Changing lifestyles, breakdown of the joint-family system, increasing number of working wives and Western influence in the urban areas are increasing the demand for processed/convenience food.

FDI Policy for Food Processing Industries

FDI in food processing sector is low, constituting only 4% of the total FDI during the period of 1991-2004. The government has allowed 100 per cent FDI in processing sector. The following policies act as deterrent to FDI in the sector.

- 1) Agricultural Land Ceiling Act obstructs large scale corporate farming which is prerequisite for large investments in processing facilities.
- 2) APMC Act further restricts direct farmer-processor linkages for sourcing of quality and quantity raw material
- 3) Although Contract farming is allowed in various states, enforcement of such contracts remains an area of concern,

The government plans to open 30 mega food parks by the end of the 11th Five Year Plan (2007-2012).

Besides attracting FDI through schemes like Mega Food Park, the Government has also extended several fiscal incentives during this financial year to enhance FDI in food processing sector like Full exemption from excise duty to specified equipments for preservation, storage or transport of apiary, horticultural, dairy, poultry, aquatic & marine produce and meat and processing thereof. Project imports status, with concessional rate of basic customs duty of 5% has been granted to the initial setting up or substantial expansion of a cold storage, cold room (including farm pre-coolers) for preservation or storage or an industrial unit for processing of agricultural, apiary, horticultural, dairy, poultry, aquatic & marine produce and meat.

Flow of FDI In India Food processing Sector

Ministry of Food Processing Industries have taken many steps to give impetus to this sector which include virtual delicensing of the sector, inclusion in the priority sector for lending, allowing 100% FDI except in alcoholic beverages and retail, several duty and tax reliefs, financial assistance for infrastructure building, setting up of food processing units etc. In case of export-oriented units, foreign investment is permitted even in case of items reserved for small scale sector. In addition, the export oriented units are given a number of incentives and concessions under the Export-Import Policy, such as, duty free import of capital goods, raw materials and intermediates, export income being exempt from Corporate Tax etc. FDI inflow in food processing is becoming stronger. A list of Indian food processing Industries received FDI are shown in Table-1.

Table-1

FDI inflows received by main food processing companies in India

(from January 2000 to October 2006 ,Amount in million)

Nos.	Name of the Indian Company	Amount of FDI Inflows Rupees
1	Cadbury India Ltd	7,007.7
2	Metro Cash & Carry India Pvt	1,403.6
3	Balarampur Chini Mills Ltd	1,130.8
4	Nestle India Ltd	1,007.9
5	Kelloggs India P. Ltd	659.4
6	Parry Confectionery Ltd	644.8
7	Cargil Foods India Ltd	625.3
8	Brittania New Zealand Food P. Ltd	575.3
9	Amamalgamated Bean Coffee TradingCompany	479.8
10	Dynamic Daily Industries Ltd	346.2

Source: Ministry of Food processing India

Sensing enormous unexploited potential, foreign players are increasingly showing their interest to be a part of this rapidly rising sector. It attracted around INR45.19 billion FDI during 1991-2005 which is 3.3% of total FDI inflow in India, and ranked as the 7th sector attracting largest FDI in India. Foreign direct investment of around US\$1 billion has already been approved in India's food processing industry since 1991. The government of India has set a target of USD 25.07 billion of FDI Inflows to Food Processing Industries to be achieved by 2015 which will increase India's global food trade from 1.6 percent to 3 percent along with a rise in perishable processed food items from 6 percent to 20 percent. The national policy on food processing aims at increasing the level of food processing from 10 per cent during 2010 to 25 per cent by 2025. The main source countries of FDI are Switzerland, USA, Germany, Mauritius, Korea etc (Table 2).

Table:2

Main Source Countries of FDI in Food Processing sector in India(2003-2006)

Country	Amount (Rs) (Million)	Percentage
Switzerland	1943.84	21.50
USA	1900.09	21.20
Germany	1795.02	19.86
Mauritius	1572.82	17.40
Korea	858.47	9.50
France	366.12	4.05
UAE	333.50	3.69
Saudi Arabia	270.50	2.99
Total	9040.36	100

The Foreign Direct Investment (FDI) in food processing sector in India during the financial year 2010-11 up to November 2010 is Rs. 576.50 crores as compared to total FDI of Rs. 5344.22 crores. As shown in Table 3, from 2000-01 to 2010-2011, FDI inflow in food processing sector is increased from Rs 198.13.crores to Rs 576 crores.

Table-3

Year wise FDI inflow in Food Processing Industry and Export from India

Year	Amount(In Rs Crore)	Year to Year Growth rates	Growth rate for 2000-2010
2000-2001	198.13		1.91
2001-2002	1,036.12	4.23	
2002-2003	176.53	-0.83	
2003-2004	510.85	1.90	
2004-2005	174.08	-.70	
2005-2006	182.94	.05	
2006-2007	441.00	1.41	
2007-2008	632.00	.43	
2008-2009	462.00	-.27	
2009-2010	937	1.03	
2010-2011	576.50	-.38	

Source: Annual Reports, Ministry of Food Processing industry

The highest FDI inflow was observed during the year 2009-10, Rs 937 crores. So far as year to year growth rate is concerned the highest growth rate was observed for the year 2000-01 to 2001-02. The growth rate for the total period (2000-01 to 2010-2011) is calculated 1.91 (Table-3).

Chapter V: Conclusion

Even if India is one of the attractive destinations of FDI, specially for the food processing sector, there are still some significant constraints toward the development of this sector. One of the biggest constraints is that this industry is capital intensive. It creates a strong entry barrier and allows lesser number of players to enter the market. Lesser players mean lesser competition and lesser competition means reduced efforts to improve the quality standards. Another one constraint is poor infrastructure for storing raw food materials. One of the best methods of addressing these constraints is more and more FDI.

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