

Foreign Direct Investment in the Food Processing
Industry Sector of India.

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The World Trade Organization defines FDI as follows: “FDI occurs when an investor based in one country (the home country) acquires an asset in another country (the host country) with the intent to manage the asset. The management dimension is what distinguishes FDI from portfolio investment in foreign stock, bonds and other financial instruments.”

According to the IMF, “FDI is defined as investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor. The investor’s purpose being to have an effective voice in the management of the enterprise.”

Categories of FDI:

There are three main categories of FDI namely,

- (i) Equity Capital,
- (ii) Reinvested earnings,
- (iii) Other Capital.

Types of FDI :

FDI can be classified from the perspective of the investor (the source country) and from the perspective of the host country. From the perspective of the investor, FDI can be classified into,

- (i) horizontal FDI, (ii) vertical FDI and (iii) conglomerate FDI..

From the perspective of the host country, FDI can be classified into

- (i) import-substituting FDI; (ii) export-increasing FDI; and (iii) government-initiated FDI.

Objectives:

The objectives of the study are as follows:

- To provide a conceptual explanation of FDI.
- To study the inflow of FDI in the Food Processing Industry of India
- To study the trends of inflow of FDI in the Food Processing Industry of Maharashtra.

Methodology

This study is essentially an analysis of secondary data on FDI in Food Processing Industry in India. The data was collected from ministry of Food Processing Industries, Department of Industrial Policy & Promotion, Ministry of commerce & Industry, Government of India, RBI Bulletin, Economic Survey of India and various websites.

Policy Initiatives

- The Indian government has abolished licensing for almost all food and agro-processing industries except for some items like beer, potable alcohol and wines, cane sugar, hydrogenated animal fats & oils etc., and items reserved for the exclusive manufacture in the small scale industry (SSI) sector.
- Automatic investment approval (including foreign technology agreements within specified norms), up to 51 per cent foreign equity or 100 per cent for NRI and Overseas Corporate Bodies (OCBs) investment, is allowed for most of the food processing sector except malted food, alcoholic beverages, including beer, and those reserved for small scale industries (SSI).
- Use of foreign brand names is now freely permitted.

- Most of the items can be freely imported and exported except for items in the negative lists for imports and exports. Capital goods are also freely importable, including second hand ones in the food-processing sector.
- Wide-ranging fiscal policy changes have been introduced progressively. Excise and Import duty rates have been reduced substantially. Many processed food items are totally exempt from excise duty.
- Customs duties have been substantially reduced on plant and equipment, as well as on raw materials and intermediates, especially for export production.
- Corporate taxes have been reduced and there is a shift towards market related interest rates. There are tax incentives for new manufacturing units for certain years, except for industries like beer, wine, aerated water using flavoring concentrates, confectionery and chocolates.

Sectoral Overview

- Fruits and Vegetable Processing
- Meat and Meat Processing
- Dairy Processing
- Fish Processing
- Consumer Food Industries

Details of FDI inflow

Year	FDI inflow received in Food Processing Industry sector (Rs. In Crore)
2002-03	176.53
2003-04	510.85
2004-05	174.08

Source: Annual Report 2005-06, Ministry of Food Processing Industries

Ranks	Sector	Amount of FDI inflows	% age of total inflows
1	Electrical Equipments	4885.88	16.50
2	Transportation Industry	3143.09	10.34
3	Services Sector	2971.66	9.64
4	Telecommunications	2890.12	9.58
5	Fuels	2521.49	8.41
6	Chemicals	1889.51	5.86
7	Food Processing Industries	1173.18	3.67
8	Drugs and Pharmaceuticals	948.54	3.18
9	Cement and Gypsum	746.79	2.54
10	Metallurgical Industries	627.32	2.12

Ranking by Investors

Maharashtra	1
Karnataka	2
Andhra Pradesh	3
Tamil Nadu	4
Gujrat	5
Haryana	6
Madhya Pradesh	7
West Bengal	8
Uttar Pradesh	9

Ranking according to FDI approvals

Maharashtra	1
Delhi	2
Tamil Nadu	3
Karnataka	4
Gujarat	5
Andhra Pradesh	6
Madhya Pradesh	7
West Bengal	8
Orissa	9
Uttar Pradesh	10
Haryana	11

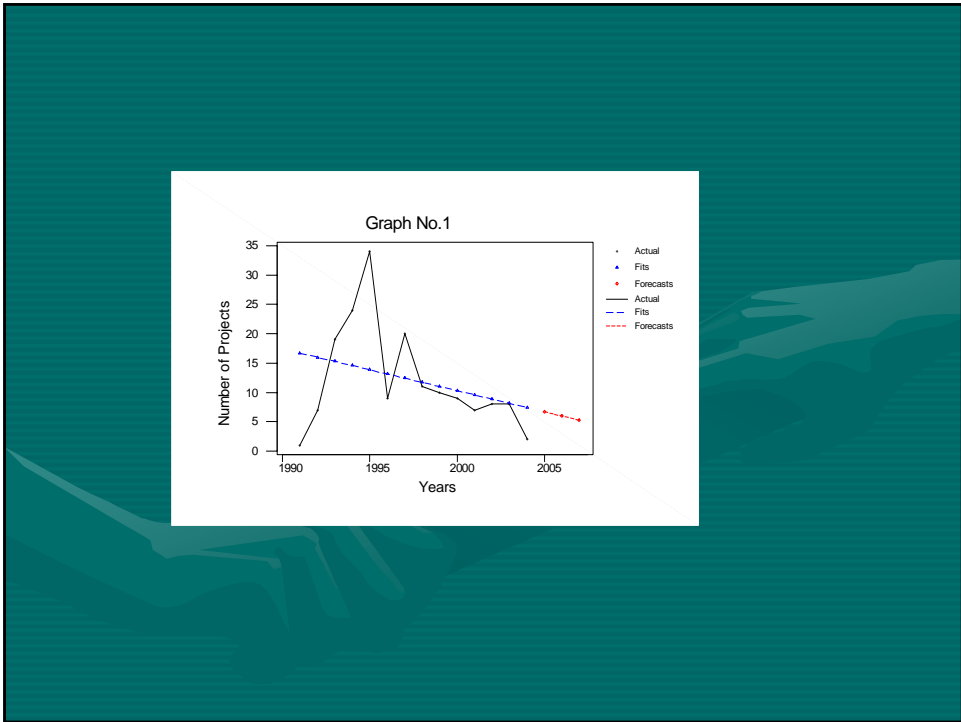
- Efficient Ports
- Good road connectivity
- Proximity to Markets
- The biggest financial center
- People who are both industrious and enterprising.

The Gallup Survey 2003 has revealed that Maharashtra is the hottest State for business in India because it ranks number one on following parameters.

- Power Availability
- Availability of Raw materials
- Labour availability
- Quality of power
- Proximity of Markets
- Connectivity to International cities
- Flexibility of State Govt. on Policies.
- Banking Sector-Advanced banking facilities.
- Telecom facilities.

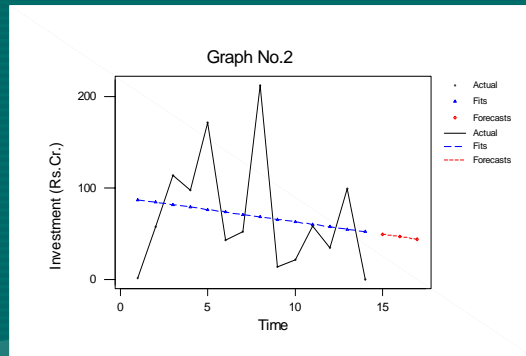
Trend Analysis for No. of FDI Projects in Food Processing Sector (1991-2005)
And Trend Projection upto 2008.

Sr.No	Year	No. of Projects	Trend	Detrend	Forecast/Trend Projection
1	1991-92	1	16.7143	-15.7143	Present Trend (1991-2005)
2	1992-93	7	16.0000	-9.0000	
3	1993-94	19	15.2857	3.7143	
4	1994-95	24	14.5714	9.4286	
5	1995-96	34	13.8571	20.1429	
6	1996-97	9	13.1429	-4.1429	
7	1997-98	20	12.4286	7.5714	
8	1998-99	11	11.7143	-0.7143	
9	1999-00	10	11.0000	-1.0000	
10	2000-01	9	10.2857	-1.2857	
11	2001-02	7	9.5714	-2.5714	
12	2002-03	8	8.8571	-0.8571	
13	2003-04	8	8.1429	-0.1429	
14	2004-05	2	7.4286	-5.4286	
15	2005-06		6.71429		Trend Projection (2006-2008)
16	2006-07		6.00000		
17	2007-08		5.28571		



Trend Analysis of FDI amount (Rs.crore) in Food Processing Sector
(1991-2005)
And Trend Projection upto 2008.

Sr.No	Year	Investment	Trend	Detrend	Forecast/Trend Projection
1	1991-92	1.53	87.3814	-85.851	Present Trend (1991-2005)
2	1992-93	57.46	84.6827	-27.223	
3	1993-94	114.10	81.9841	32.116	
4	1994-95	97.71	79.2854	18.425	
5	1995-96	171.71	76.5867	95.123	
6	1996-97	42.73	73.8880	-31.158	
7	1997-98	52.70	71.1893	-18.489	
8	1998-99	212.45	68.4907	143.959	
9	1999-00	13.63	65.7920	-52.162	
10	2000-01	21.45	63.0933	-41.643	
11	2001-02	58.21	60.3946	-2.185	
12	2002-03	34.44	57.6959	-23.256	
13	2003-04	99.49	54.9973	44.493	
14	2004-05	0.15	52.2986	-52.149	
15	2005-06		49.5999		Trend Projection (2006-2008)
16	2006-07		46.9012		
17	2007-08		44.2025		



Findings:

- India is one of the world's major food producers but accounts for less than 2.00 percent of international food trade. This indicates vast scope for both investors and exporters.
- Increased levels of literacy, rapid urbanization and rising per capita income have all caused rapid growth and changes in demand patterns. An average Indian spends about 50 per cent of household expenditure on food items.
- With a population of over 1 billion and a 350 million strong urban middle class and changing food habits, the processed food market in the country is expected to grow significantly.
- India's relatively inexpensive but skilled workforce can be effectively utilized to set up large, low cost production bases for domestic and export markets.
- The national policy aims to increase the level of food processing from the present 2 per cent to 10 per cent by 2010 and 25 per cent by 2025.

- Key investment opportunities, both for catering to the domestic market as well as for exports, exist in many areas of food processing in India. Milk and milk products, meat and poultry, fruits and vegetables, and beer and alcoholic drinks are some of the areas with huge potential.
- The biggest bottleneck in expanding the food processing sector, in terms of both investment and exports, is lack of adequate infrastructure.
- Without a strong and dependable cold chain vital sector like food processing industry which is based mostly on perishable products cannot survive and grow. Even at current level of production, farm produce valued at Rs 70,000 million is being wasted every year only because there is no adequate storage, transportation, cold chain facilities and other infrastructure supports. Cold chain facilities are miserably inadequate to meet the increasing production of various perishable products like milk, fruits, vegetables, poultry, fisheries etc.
- Prevention of Food Adulteration laws is not only stringent one but time consuming also. It is considered as an archaic and no industry friendly food law. It substantially varies from Codex standard. Harmonization of multiple food laws is an urgent necessity.

THANK YOU