



An Analysis of FDI in Indian Food Processing Industry

KEYWORDS

Food Processing, Food Processing Industry, Foreign Direct Investment

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ABSTRACT *In terms of producer of food India is second largest in the world next to China. It has 161 million hectares and has highest acreage under irrigation. The industry is estimated to be worth around US\$ 67 billion and employing about 13 million people directly and about 35 million people indirectly. At the same time the rural economy of India is considered as poor because the value addition to food products in low of food grains, vegetables, fruits and other cereals has not been done in rural areas. Hence, there is trust on food processing units in rural areas. The term 'food processing' is mainly defined as a process of value addition to the agricultural or horticultural produce by various methods like grading, sorting and packaging. In other words, it is a technique of manufacturing and preserving food substances in an effective manner with a view to enhance their shelf life; improve quality as well as make them functionally more useful. At the same to start, expand and absorb technology in the food processing sector one important requirement is capital. As India is experiencing shortage of capital, there came a proposal to allow (FDI) into India, especially after 1991 economic reforms. In this paper an analysis was made on FDI in India's food processing sector and the results showed a positive trend though much has be done in the policy level as well as practical aspects.*

Introduction

India has 161 million hectares and has highest acreage under irrigation and second largest food producers in the world next to China. The industry is estimated to be worth around US\$ 67 billion and employing about 13 million people directly and 35 million people indirectly. At the same time more production is not going to be suffice as the processed food sector has to be developed on account of the following reasons.

- Increasing spending on health and nutritional foods.
 - Increasing number of nuclear families and working women
 - Changing lifestyle
 - Functional foods, fresh or processed foods
 - Organized retail and private label penetration
 - Changing demographics and rising disposable incomes
- Food Processing

The term 'food processing' is mainly defined as a process of value addition to the agricultural or horticultural produce by various methods like grading, sorting and packaging. In other words, it is a technique of manufacturing and preserving food substances in an effective manner with a view to enhance their shelf life; improve quality as well as make them functionally more useful. It covers a spectrum of products from sub-sectors comprising agriculture, horticulture, plantation, animal husbandry and fisheries. It helps to diversify and commercialize farming; enhance income of farmers; create markets for export of agro foods as well as generate greater employment opportunities. Through the presence of such industries, a wider range of food products could be sold and distributed to the distant locations.

Food Processing Sector in India

India has diverse agro-climatic conditions and has a large and diverse raw material base suitable for food processing companies. More than 50 per cent of household expenditure by Indians is on food items. Indian food industry expected to grow to US\$ 280 billion by 2015 and generate an additional employment for approximately 8.2 million people. Further, it is expected that processed food output will grow at a strong 7 % CAGR in terms of value from 55.6 billion US\$ in 2005 to 95.6 billion US\$ in 2013. In this regard, it can be observed that processed food sector requires huge capital investments and strategic planning and technology in the field of packing and marketing. One of the ways of filling this investment gap,

according pro-liberal sources, is attracting FDI in this sector on a large scale. In this paper a brief analysis was done the trends of FDI flows in the food processing sector.

Objective

1. To examine the Trend on Public Expenditure on FPI
2. To analyze the employment potential in the Food Processing Industry
3. To find out the progress of FDI in the Food Processing Industry

Data and Methodology

This study is based on secondary data. The required data were collected from Ministry of Food Processing Industry in India and other relevant sources. The data were analyse by using with the following formula.

$$AGR = (Y_t - Y_0) / Y_0 \times 100$$

The study is covered a period of eight years (2004-05 to 2011-12) to analyse the percentage of expenditure made by the central government out of the outlay it has made; ten years (1998-99 to 2007-08) data were used to find out the employment potential and a eleven year period (2001-02 to 2010-11) to get an idea about the FDI made in the food processing sector.

Trend of Public Expenditure on FPI

The government has increased its Plan outlay for the development of Food Processing Industries in the country (Table 1) during the period under study from Rs 110 crores in 2004-05 to Rs 600 crores in 2011-12. However, the actual expenditure incurred at a lower rate ; from 80 crores in 2004-05 to Rs 353 crores in 2011-12. The percentage of utilization varied from 63.8 (2005-06) to 98.5 (2010-11). That is, only in three years, out of eight years, the utilization rate was above eighty per cent implying the fact that much has to be done the central government to properly utilize the allowed funds.

Table 1 Outlay and Expenditure for the FPI
(Rs. in Crore)

Year	Outlay	Expenditure	Percentage of utilization
2004-05	110.01	80.42	72.7
2005-06	180.01	115.25	63.8
2006-07	200.22	159.78	80.0
2007-08	250.00	182.97	73.2

2008-09	290.00	223.12	76.8
2009-10	340.00	277.53	81.7
2010-11	400.00	394.39	98.5
2011-12	600.00	469.3	78.2

Source : Annual Report – 2011-12, Ministry of Food Processing Industries, GOI

Employment in FPI

Food Processing Industries sector provides employment opportunities to the people. The number of persons employed in Food Processing Industries units in the organized sector have been increasing every year; from 13.46 lakhs in 1998-99 to 15.05 lakhs in 2007-08. At the same time, mild fluctuations were observed during this 10 years as shown by the calculated annual growth rates. Out of the important points to be noted here is that the data on the number of persons employed in the unorganized food processing sector were not available. Definitely it would be manifold than in the organized sector.

Table 2 Persons Employed under Registered FPI

Year	Persons Employed (Nos)	Growth Rate %
1998-99	1346826	
1999-00	1347418	0.04
2000-01	1332588	-1.10
2001-02	1306677	-1.94
2002-03	1308335	0.13
2003-04	1297073	-0.86
2004-05	1342925	3.54
2005-06	1391616	3.63
2006-07	1476351	6.09
2007-08	1505246	1.96

Source : Annual Report – 2011-12, Ministry of Food Processing Industries

FDI Policy for Food Processing Sector

In India, the Food Processing Sector attracting more FDI because, it is getting FDI equity. Foreign Direct Investment

(FDI) is permissible for all the processed food products under 100% automatic route. FDI under automatic route is approved at the Reserve Bank of India (RBI) level and it does not require the approval of Foreign Investment Promotion Board (FIPB).

Inflow of Foreign Direct Investment in Food Processing Industries

The FDI in FPI in India has increased with fluctuations during the period under study. The FDI in FPI was Rs 198.13 crores in 2000-01 and suddenly increased to Rs 1036 crores in the next year only to decline drastically in the next seven years. Then only in 2009-10 it went upto Rs 1314 crores but declined in the next year to Rs 858 crores.

Table 3 Foreign Direct Investment in Food Processing Industry

S No	Year	FDI (in Rs Cr.)	AGR/
1	2000-01	198.13	
2	2001-02	1036.12	4.23
3	2002-03	176.53	-83
4	2003-04	510.85	1.89
5	2004-05	174.08	-66
6	2005-06	182.94	.05
7	2006-07	441.00	1.41
8	2007-08	632.00	43
9	2008-09	462.00	-27
10	2009-10	1314.00	1.84
11	2010-11	858.00	-35

Source : India Opportunities A Guide to do Business in India

Conclusion

Attracting Foreign Direct Investment in Food Processing Industries has been remaining a challenge till date. Policy changes on the one side and infrastructural development on the other are the conditions to invite more FDI in this FPI sector.

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