



FDI Trends in Food Processing Sector in India

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ABSTRACT

Global Foreign Direct Investment (FDI) inflows rose 16 per cent in 2011. The FDI inflows in India are increased at the rate of 27.9 per cent per annum during the period 2000 to 2011. In India, FDI inflows in food processing sector were worth Rs.198 crore in the year 2000, these FDI inflows were rose to Rs.1314 crore in 2009 and the it was fallen to Rs.826 crore in 2011. During this period the growth were registered 11.1 per cent per annum respectively. Ministry of Food Processing Industries (MoFPI) has formulated a Vision 2015 Action Plan that includes trebling the size of the food processing industry, raising the level of processing of perishables from 6 per cent to 20 per cent, increasing value addition from 20 per cent to 35 per cent, and enhancing India's share in global food trade from 1.5 per cent to 3 per cent.

Keywords : India, Food Processing Industries, Foreign Direct Investment

INTRODUCTION

The Indian food processing industry is one of the largest in the world in terms of production, consumption, export and growth prospects. Earlier, food processing was largely confined to the food preservation, packaging and transportation, which mainly involved salting, curdling, drying, pickling, etc. However, over the years, with emerging new markets and technologies, the sector has widened its scope. It has started producing many new items like ready-to-eat food, beverages, processed and frozen fruit and vegetable products, marine and meat products, etc. It also include establishment of post-harvest infrastructure for processing of various food items like cold storage facilities, food parks, packaging centres, value added centres, irradiation facilities and modernised abattoir.

Food processing sector is indispensable for overall development of an economy as it provides a vital linkage and synergy between the agriculture and industry. It helps to diversify and commercialise 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. 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 spectrum of products from sub-sectors comprising agriculture, horticulture, plantation, animal husbandry and fisheries.

The liberalisation of the Indian economy and world trade as well as rising consumer prosperity has thrown up new opportunities for diversification in the food processing sector and opened up new avenues for growth. Demand for processed and convenience food is increasing constantly because of urbanisation, changing life-style and food habits of the people. Accordingly, the Indian consumers are being offered newer high quality food products made by using the latest state-of-the-art technology. India has a strong agricultural production base with diverse agro-climatic conditions and arable land of 184 million hectares. It is one of the major food producers in the world and has abundant availability of wide variety of crops, fruits, vegetables, flowers, live-stock and seafood.

Foreign Direct Investment (FDI) is capital provided by a foreign direct investor, either directly or through other related enterprise, where the foreign investor is directly involved in the management of the enterprise. In recent years, however, FDI restrictions have been significantly reduced. India has been taking many attractive steps to invite and invest foreign investor in a direct way. The economic reform adopted by Indian Government since 1991 paved the way to formulate policies and strategies to attract foreign direct investment into our country.

FDI has to play an important role in promoting economic growth, raising a country's technological level, and creating new employment in developing countries. FDI works as a means of integrating developing countries into the global market place and increasing the capital available for investment, thus leading to increased economic growth needed to reduce poverty and raise living standards.

OBJECTIVE OF THE STUDY

- To study the Indian FDI inflows and FDI inflows in the Food processing industry of India
- To study the trend of Indian FDI inflows and FDI in the food processing industry of India

DATABASE & METHODOLOGY

This study is based on analysis of secondary data taken from the various agencies and organisations. The present study makes use of data and information provided by World Investment Reports published by UNCTAD. The FDI inflows of food processing industries 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.

Methodology: Exponential Annual Compound Growth Rate (ACGR)

In order to examine the study objectives makes use to different statistical tools, such as percentage shares, and exponential growth rates are estimated.

The Exponential function is

$$Y = ae^{bt}$$

Where, Y = FDI inflows
and t = time

Annual percentage of growth rate was generally $\hat{b} \times 100$

The significance of the growth rate was tested using student's 't' values and 'r²' values.

$$t = \frac{\hat{b}}{SEE(\hat{b})}$$

FDI INFLOWS IN INDIAN FOOD PROCESSING INDUSTRIES

One of the major changes in the external sector of the Indian economy following the reforms process of 1991 was the liberalisation of inflow of foreign capital, in general and that of Foreign Direct Investment (FDI) in particular. In the aftermath of these reforms, the country has received substantial inflows of FDI especially in the food processing sector.

Table-1: represents FDI inflows in India during the period 2000-2011

Year	Total FDI inflows in India (US \$ billions)	% Growth over previous year (US \$ billions)
2000-01	2.31	--
2001-02	3.4	47.19
2002-03	3.45	1.47
2003-04	4.27	23.77
2004-05	5.5	28.81
2005-06	7.6	38.18
2006-07	20.3	167.11
2007-08	25.5	25.62
2008-09	43.4	70.20
2009-10	35.6	-17.97
2010-11	24.2	-32.02
2011-12	31.5	30.17

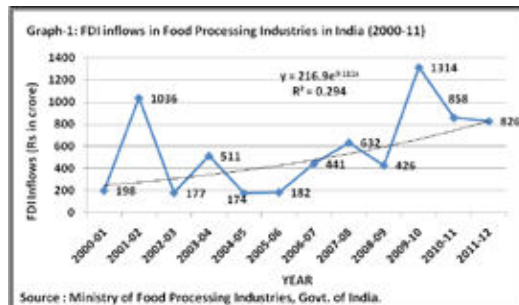
Source: World Investment Reports-2012, various reports www.unctad.org

According to the World Investment Report 2012, World FDI inflows reached US \$ 1524 billion and FDI outflow noted US \$ 1694 billion in 2011. Global foreign direct investment inflows rose 16 per cent in 2011, surpassing the 2005-2007 pre-crisis level for the first time, despite the continuing effects of the global financial and economic crisis of 2008-09 and the ongoing sovereign debt crises. The FDI inflows were worth US \$ 2.31 billion in the year 2000 these inflows were increased to US \$ 43.4 billion in the year 2008, and then fallen to US \$ 31.5 billion in the year 2011. The FDI inflows in India are increased at the rate of 27.9 per cent per annum during the period 2000 to 2011. It is observed that there is a steep increased because the government has been providing transparent and investor friendly climate. Last five years FDI inflows in India were observed highly fluctuated.

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 per cent 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.

Graph-1: represent to FDI inflows in food processing industries in India 2000-11.



According to Ministry of Commerce & Industry the FDI inflows in food processing sector were worth Rs.198 crore in the year 2000, these FDI inflows were rose to Rs.1314 crore in 2009 and the it was fallen to Rs.826 crore in 2011. During this period the growth were registered 11.1 per cent per annum respectively.

CONCLUSION AND SUGGESTIONS

According to the World Investment Report 2012, Global foreign direct investment inflows rose 16 per cent in 2011. The FDI inflows in India are increased at the rate of 27.9 per cent per annum during the period 2000 to 2011. It is observed that there is a steep increased because the government has been providing transparent and investor friendly climate. Last five years FDI inflows in India were observed highly fluctuated. According to Ministry of Commerce & Industry the FDI inflows were worth Rs.198 crore in the year 2000, these FDI inflows were rose to Rs.826 crore in 2011. During this period the growth were registered 11.1 per cent per annum respectively.

Ministry of Food Processing Industries (MoFPI) has formulated a Vision 2015 Action Plan that includes trebling the size of the food processing industry, raising the level of processing of perishables from 6 per cent to 20 per cent, increasing value addition from 20 per cent to 35 per cent, and enhancing India's share in global food trade from 1.5 per cent to 3 per cent. According to the website of MoFPI, the Government of India is actively promoting the concept of Mega Food Parks (MFPs) and is expected The to set up 30 such parks across the country to attract FDI. The government has released a total assistance of USD 23 million to implement the Food Parks Scheme. It has, until now, approved 50 food parks for assistance across the country. The Centre has also planned for a subsidy of USD 22 billion for mega food processing parks. The government has established 60 fully equipped Agri-Export Zones (AEZs), in addition to food parks, to provide a boost to agricultural and food processing exports.

India's relatively in expensive but skilled workforce can be effectively utilised to set up large low cost production bases for domestic and export markets. The second biggest bottleneck in expanding the food processing sector, in terms of both investment and export, is lack of adequate infrastructure facilities. Another constraints is poor infrastructure for storing raw food materials. Financial incentives and support should be provided on liberal scale to promote the modernization of agro-processing industry and for establishing new such industries in production catchments.

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