

GOVERNMENT STRATEGY

There has been a marked change in government policy and attitude towards the setting up and operation of business and industry in India, resulting in significant deregulation and simplification of procedures. Industrial licences have been dispensed with in most areas; there is an automatic approval process for foreign financial and technical collaborations in identified high priority sectors (such as food processing). Exchange controls have been eased. However, there are exceptions and investors are advised to seek further information to avoid later misunderstandings. Further details of information is provided in Part 3 of this report.

PART 1

BACKGROUND

The Indian government is committed to providing a large thrust to food processing and other agro-based industries to create employment opportunities, diversify the economy and improve the living standards of the population. This sector is recognized as one that can play an important role in improving agricultural productivity, reducing wastage of fruits, vegetables and other perishable food items and improving food availability, both for the domestic market and for export. The Government is strongly in favour of establishing backward linkages from investment and domestic production that will benefit farmers.

Approved foreign investment in India's food processing industry was US\$720 million between 1991 and March 1995, which constitutes about 11% of the total approved foreign investment in India.

FOREIGN INVESTMENT REFORMS

India has undertaken dramatic political and economic reforms affecting the regulation of foreign exchange, imports, investment, privatization, taxes and the environment. India has all but abolished its "licence Raj" which has frustrated exporters and investors alike. The Rupee is now fully convertible on both the trade and current accounts. Development of critical infrastructure, improvements in agricultural and industrial productivity, employment generation and increased foreign exchange earnings are national priorities. And perhaps most importantly, there is an emerging mind set that India truly can achieve global status.

The number of items on the "freely permissible" list of consumer goods imports and those which may be freely traded on Special Import Licences have increased, but the maximum import duty rate of 50% (reduced from 65% in 1993) is still high and many non-tariff barriers remain.

- Key features of the country's new foreign investment policies are:
- Automatic approval for foreign equity participation up to 51% in key areas including food processing.
- The Foreign Investment Promotion Board (FIPB) has been set up in the office of the Prime Minister to speed the approval process.