

## EXECUTIVE SUMMARY

With a population of 900 million people, expected to reach 1 billion by the year 2000, India has the potential to be one of the world's largest markets for agri-food products. Almost 50% of the population is under 20 years of age, providing a large pool of consumers for several decades to come. India's middle class is estimated at 200-300 million people, the majority of whom earn between \$1,200 and \$3,600 US per household per year, an amount that is shy of what many deem to be the income required to purchase value-added food products (\$5,000 US). Yet, about 30-40 million Indians earn \$18,000 US or more a year, a huge market by any standard.

The consumption and living patterns of this emerging middle class is comparable to those in Western market economies during the 1960s. Although the current per capita consumption levels of processed food items are low, increased urbanization, changing lifestyles and spending patterns have resulted in a rapid expansion of the domestic market. Increased female literacy (up from 29.8% in 1981 to 39.4% in 1991), an increase in the number of working women and the diminishing extended family system have led to an increased demand for convenience foods - a demand that will only grow. The institutional (hotels, airlines, hospitals and defense services) and tourism sectors are also rapidly growing, with marked increases in international, domestic, business and leisure travel. Television now enters the homes of 80% of the population, with its accompanying advertising. The use of foreign brand names is now freely permitted, even for sales in the domestic market.

To keep pace with this growing demand, the food processing industry in India is committed to becoming high-tech and high-volume, able to supply both the domestic and world markets. India's exports of processed foods are targeted to reach US\$ 1600 million in 1997, from the current level of US\$ 1000 million. With investment reforms, including the almost complete delicensing of food processing industries, the processed foods sector has drawn a large chunk of Foreign Direct Investment in the last few years. For the fiscal year ending March 1995, the Government of India received investment commitments exceeding \$2.5 billion, of which foreign direct investment was over \$720 million. By the end of the Eighth Plan Period (1992-1997), investment in the organized food processing industry is expected to be \$5 billion. With the Government of India providing incentives and an easier working environment for foreign investors, both the Indian corporate sector and multinational corporations (MNCs) have jump-started the food processing industry, with participation from farm to factory.

Canadian direct investment in India has grown rapidly over the last few years. Compared with about \$8 million a year between 1987 and 1992, the Indian Ministry of Industry estimates that Canadian investment in the first six months of 1995 alone was valued at \$151 million, including large scale investments in food processing. During the January 1996 Team Canada Trade Mission to India, a revised agreement for the avoidance of double taxation was signed by Canada and India. This ensures that profits, income, gains or capital arising in one country and paid to a resident of the other country will not be doubly taxed and it reflects more accurately the current tax policies of the two countries. The revised agreement will improve the climate for investment and the conduct of business and will reinforce economic relations between Canada and India.