

## Labour productivity in india declining impacting competitiveness of labour-intensive sector like food processing

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Food processing industry in India is a labor-intensive industry. Over 90% of the industry is still unorganized performing the processing and packaging manually engaging labors including female workers in large numbers. Some of the typical manufacturing units in processed food sectors like fruit and vegetable processing, marine fish processing, traditional products like papads, pickles, spices, bakeries and cereal products are mostly labor intensive carrying out processes manually. Labor productivity, therefore, determines the competitiveness of food products in domestic and international trade. Labour productivity in India is as such low and now even it is declining. Our farm level productivity is also low in comparison to other developing and developed nations.

As per the report of the Ministry of Food Processing, Govt of India, during the last eight years ending 2022-23, Food Processing sector has been growing at an Average Annual Growth Rate (AAGR) of around 5.35%. Gross Value Added (GVA) in Food Processing sector has increased from INR 1.61 lakh crore (USD 18.9 billion) in 2015-16 to INR1.92 lakh crore(USD 22.6 billion) in 2022-23 (as per the First Revised Estimates of Ministry of Statistics and Programme Implementation, Govt of India).The food processing industry in India employs around 7.04 million of workforce in registered and unregistered units. The data from the unregistered and unorganized sector of food processing is still not very reliable. Most of the workers in the industry have not received any formal or informal skill training. As per the latest Annual Survey of Industries (ASI) report showed that the employment in Food Processing Industries has increased from 1.77 million in 2014-15 to 2.68 million in 2021-22. This represents employment in the organized sector indicative of the fact that hardly there is any increase in terms of labour employment in this sector.

The percentage share of processed food exports in total agri-food export has gone up to 23.4% in 2023-24 from 13.7% in 2014-15 an increase of 9.7 percent in ten years. However, in terms of the share of processed food products as a percentage of global trade, it is still very low and stands at less than 2 percent.

It is generally considered that the food processing industry in India is one of the major contributors to employment and the economy. According to the Ministry of Food Processing Industries (MoFPI), the sector employs around 1.93 million people, accounting for 12.38% of employment in the registered factories or organized sector and around 7 million people across the registered and unregistered sectors. The break-up is like: Registered (Organized) sector: Employs about 1.93 million people and Unregistered( Unorganized) sector: Employs around 5.1 million people “.”

A recent study indicates that labour productivity is in fact declining. In a labor-intensive sector like food processing, if the labour productivity is declining, how can the industry become globally competitive.

India International Centre (IIC) organizes a conference every year to review Indian Economy by independent researchers and economists. This year the annual conference was held at IIC on 24th Dec 2024. This is the 10th Edition of the Annual Discussion on 'State of the Indian Economy'. Surojit Mazumdar, Professor of Economics at Jawaharlal Nehru University (JNU) has presented a paper to discuss about the decline in labour productivity in India as shown in Table 1 below.

**Table 1: Indices of Labour productivity (value added at constant prices per person employed) 2017-18 to 2023-24 (taking 2017-18=100)**

Sector	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Economy	100	102.0	98.0	88.5	94.9	98.0	97.6
Manufacturing	100	104.5	99.8	101.2	103.7	98.3	
Service	100	100.5	101.0	89.2	95.2	100.5	
Agriculture and Food Processing	100	101.1	94.6	91.3	94.6	97.8	

**Source: Capital, Labour, Energy, Materials and Services Database published by Reserve Bank of India**

From the above Table1 across sectors labour productivity as well as Indian Economy has declined since 2017-18. In 2018-19 there was a slight increase in labour productivity in the Agricultural sector but started declining thereafter.

Agriculture sector still engages over 50 percent of the total labour forces in India but its contribution to the economy has declined over the years. Agriculture sector contributes about 17 percent of the Indian economy now but provides employment to about 58 percent of the working population including temporary and seasonal farm labours. While service sector's contribution to Indian economy has increased to over 50% but that provides employment to about 31 percent of the working population. Whereas manufacturing sector's contribution is about 17 percent of the Indian economy, and it employs 57.3 million workers. These 57.3 million workers should include 7 million workers engaged in Food processing industry, organized and unorganized sectors put together. In other words, the processed food industry engages 12 % of the total workforce in manufacturing industry. This is the scenario when processed food industry is still highly labour intensive and also largely in unorganized sector. And that too when labour productivity is declining. In India, despite the growth in employment in service sector, large number of work force is still engaged in agricultural sector.

We have been talking about the significant contribution of the processed food industry in India and we still regard that as sunrise industry. If the food industry in India has to grow, the food products have to be globally competitive, which is not happening, and key reason is that productivity is not improving in real terms. Productivity is the reflection of the efficiency of the system and is measured as output against a given input. The total factor productivity covering input of men, machine, money and material(4M) and now we can also include technology (method) making it 5M needs to deliver expected and comparable productivity level of Agriculture and Food processing sector of other countries. For a labor-intensive industry labour productivity would make a lot of difference particularly when infusion of technology, process automation and mechanization is still at a low level. If investment is made in technology, labour engagement will further reduce. If the processed food industry is seen as an avenue of employment of labors, industry has to grow. If skill level increases, then labour requirement will reduce further unless production increases. Also, production can increase when demand increases, and demand will increase if competitiveness increases to compete in global trade which is a function of farm level productivity, labor productivity and technology absorption. But the current growth rate of 5.35% is not indicative of any significant growth. As this is value growth rate, hardly there is any real term growth in the industry.

In terms of production, India has the distinction of featuring as no1 producer in many items including milk, and cattle population. But in terms of per capita domestic consumption as well as global ranking in terms of export of food and agricultural products, India's rank is at the lowest level. Our task is therefore two-fold. One, to embrace new technologies and automation to improve quality and cost competitiveness and two, skill development of workforce to improve labour productivity. If this happens, prices should reduce, triggering growth in consumption to engage more workforce in a growing sector exploiting opportunity in global trade. As more than 90 % of the processed food industry is unorganized, infusion of technology which requires investment is unlikely to happen. Skill development and Business Process Reengineering (BPR) together with cluster approach seems to be a plausible solution under the circumstances.