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A Study of role of Foreign Direct Investment in retail India

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ABSTRACT

Foreign direct investment is of growing importance to global economic growth. Indian markets are seen as major source of investment as the country stands strong amid global financial turmoil. This study is directed towards detecting the advantages and disadvantages of FDI in retail to Indian Economy and its effects on small scale industries National policies and the international investment architecture matter for attracting FDI to a larger number of developing countries and for reaping the full benefits of FDI for development. Companies big or small have to depend for financial and technological support they have to depend on foreign resources for faster development and achieving good position in market. This paper deals with detailed analysis regarding role of FDI in retail sector.

KEYWORDS: FDI, Foreign Exchange Management Act, single brand, Special Drawing Right

1] Introduction

Foreign direct investment (FDI) is direct investment into production or business in a country by a company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country and the term retail refers to *a sale to the ultimate consumer.* Thus, retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption.In recent years, foreign direct investors have found the services sector the most attractive, with non-financial and financial segments accounting for 21 per cent of the inflows, followed by computer hardware and software (8 per cent) and telecommunications, real estate and construction, 7 per cent each. Power got just 5 per cent while petroleum and related fields a mere 2 per cent. Foreign Investment in India is governed by the FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act (FEMA) 1999. The foreign investors are free to invest in India, except few sectors/activities, where prior approval from the RBI or Foreign Investment Promotion Board ('FIPB') would be required. In the past decade, FDI has come to play a major role in the internationalization of business.

2] FDI in Single Brand Retail:

According to Property consultant Knight Frank in one of his report said that foreign investment in single brand retail has failed to gain momentum despite of the hike in FDI limit to 100% from 51% earlier.

However it said that there would be improvement in the FDI inflow in single brand retail over the next 6-12 months as condition on ownership and sourcing has been cased.

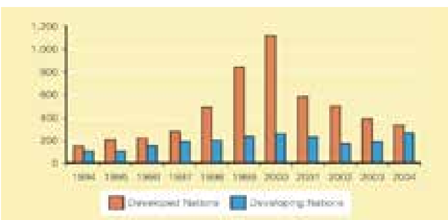
Small traders will get benefit through FDI in single brand retail as they will get access to enhanced capital and advanced technology As per the existing policy FDI in Micro, small & medium Enterprises (as defined under MSME Development act 2006) is subject to the sectoral corps, entry routes and other relevant sectoral regulations As per the Cabinet Committee on economic affairs (CCEA) for FDI proposal beyond 51% in single brand retail, 30% sourcing from small industries has been made mandatory.

'Single brand' retail implies that a retail store with foreign investment can only sell one brand.

3] FDI Flow by region

Fig 3.1

Statistical facts of world investment



(Sources: Complied by the author from data in United Nations, World Investment Report)

4] Key Statistics Regarding FDI

- India received FDI worth US$ 1.47 billion in July 2012 while cumulative inflows for April-July 2012-13 stood at US$ 5.9 billion, according to latest data released by the Department of Industrial Policy and Promotion (DIPP) The sectors which attracted huge FDI inflows during the April-July 2012-13 are: services (US$ 1.65 billion), pharmaceuticals (US$ 478 million), construction (US$ 421 million), metallurgical industries (US$ 334 million), power (US$ 237 million) and automobile (US$ 234 million) Mauritius infused highest inflows worth US$ 1.97 billion, followed by Singapore (US$ 886 million), Netherlands (US$ 616 million), the UK (US$ 421 million), Japan (US$ 417 million) and Germany (US$ 276 million)
- Private Equity (PE) companies have invested about US$ 2.5 billion through 97 deals during the July-September 2012 quarter, according to a report by research firm Venture Intelligence. The investment saw a quantum jump from the previous year's quarter (when US$ 2, 415 million were invested through 120 transactions) as well as from the immediate previous quarter (when US$ 1, 909 million were invested across 105 deals)
- Similarly, the country's mergers and acquisitions (M&As) activities intensified in July-September 2012 quarter wherein deals worth US$ 9 billion were recorded; marking a stupendous growth of 310 per cent over April-June 2012. This took the total M&A deal value to US$ 28 billion in 2012
- Foreign exchange reserves stood at US$ 294.81 billion for the week ended September 28, 2012 wherein the value of gold reserves was recorded at US$ 28.133 billion and that of foreign currency assets (FCAs) was at US$ 259.96 billion, according to the Reserve Bank of India (RBI)'s weekly statistical supplement. The value of special drawing rights (SDRs) was US$ 4.45 billion and the country's reserve position with the IMF was at US$ 2.27 billion.

5] Developments in FDI

The Government has recently cleared 14 FDI proposals worth Rs 113.35 crore (US$ 21.38 million) based on the recommendations of Foreign Investment Promotion Board (FIPB). Major proposals include an equity increase of Rs 68.22 crore (US$ 12.87 million) by the UK-based Dashtag to conduct business of pharmaceuticals specializing in dermatology, anti-histamines, antibiotics and oncology products.

Prime Surgical Centers Private Ltd's proposal to set up a Limited Liability Partnership (LLP) also got a nod from FIPB wherein the company would establish and manage short stay surgery centres in India with its flagship centre in Pune by investing around Rs 14 crore (US$ 2.64 million).

- Japanese auto major Nissan intends to introduce 10 new passenger car models by the end of March 2016 in a bid to boost its volumes in India. The company also aims to double its vehicle sales in 2012-13 from last year's 33,000 units and eventually gain 8 per cent of the market pie by 2016

- United Nations Industrial Development Organisation (UNIDO), Austria has appointed Ramky Enviro Engineers Limited (REEL) as its strategic partner to work on a project for the Bhilai Steel plant wherein the project focuses to offer 'Sound Environmental Management and Final Disposal of Polychlorinated Biphenyls (PCBs)' in compliance with the Stockholm Convention This is a turnkey US$ 4.2 million-project, to be funded by UNIDO under Global Environmental Facility (GEF) and first-of-its-kind in India
- Mahindra Finance's subsidiary Mahindra Insurance Brokers (MIBL) has formed a venture with LeapFrog Investments wherein the latter's subsidiary, Inclusion Resources Singapore, would infuse Rs 80.41 crore (US$ 15.17 million) for a 15 per cent stake in MIBL.

6] Benefits of Foreign Direct Investment:

Foreign Direct Investment has the following potential benefits for less developed countries.

1. Investment level increases

FDI is an important vehicle for the transfer of technology, contributing relatively more to economic growth than domestic investments. FDI may support the expansion of domestic firms by complementarity in production or by increasing productivity through the spillover of advanced technology. Results shows that one dollar increase in the net inflow of FDI is associated with an increase in total investment in the host economy of more than one dollar.

The main regression result shows that FDI has a positive overall effect on economic growth although the magnitude of this effect depends on the stock of human capital available in the host economy.

2. Technology upgrades

Foreign investment brings with it technological knowledge while transferring machinery and equipment to developing countries. Production units in developing countries use out-dated equipment and techniques that can reduce the productivity of workers and lead to the production of goods of a lower standard. It is obvious that level of technology and quality of human resources of the country are two of the important critical factors in attracting FDI

1. Improve the export performance

FDI can help the host country improve its export performance. By raising the level of efficiency and the standards of product quality, FDI makes a positive impact on the host country's export competitiveness. Further, because of the international linkages of MNCs, FDI provides to the host country better access to foreign markets. This is important for those countries which have a small domestic market and must increase exports vigorously to maintain their tempo of economic growth.

2. Generates Employment

FDIoftengeneratesnewemployment(directemploymentishigheringreenfieldinvestments)andcreatesjobthroughforwardandbackwardlinkageswithdomesticfirm.Recipients of FDI gain training of employees in the course of operating new enterprises, which contributes to human capital formation in the host country.

3. Beneficial to consumer

Consumers in developing countries stand to gain from FDI through new products, and improved quality of goods at competitive prices.

4. Generates revenue

Profits generated by FDI contribute to corporate tax revenues in the host country.

6] Disadvantages of Foreign Direct Investment:

Governments in developing countries have to be very careful while deciding the magnitude, pattern and conditions of private foreign investment. Possible adverse implications of foreign investment are the following:

1. When foreign investment is competitive with home investment, profits in domestic industries fall, leading to fall in domestic savings.
2. There are fears that the traditional kirana stores stands to lose the most in the wake of purported market entry of International player. Many believe that the widely propounded theory that the "entry of big fish will kill small fry" is a myth and there is ample scope from growth for both segments.
3. Foreign firms stimulate inappropriate consumption patterns through excessive advertising and monopolistic market power. The products made by multinationals for the domestic market are not necessarily low in price and high in quality. Their technology is generally capital-intensive which does not suit the needs of a labour-surplus economy.
4. Foreign firms able to extract sizeable economic and political concessions from competing governments of developing countries. Consequently, private profits of these companies may exceed social benefits.
5. Continual outflow of profits is too large in many cases,putting pressure on foreign exchange reserves.
6. Due to FDI threats can be occur in the minds of organized and unorganized retail players.
7. Acceptance towards Chinese brands can create a direct threat on Indian established Brands.

A few farmers' organizations have come openly in support of this move. The majority view, as appearing in media, is that FDI in retail will have adverse effect on farmers. Instances of exploitation of farmers by MNCs in some countries are quoted to prove the point that entry of MNCs will be harmful for our farmers, particularly small ones. It is argued that giants like Wal-Mart will use their monopolistic power to keep farm prices low and disrupt long and time-tested channels of trade.

7] Conclusion

As we have seen from the above analysis on various topics FDI has certain advantages in country's Economic Development and is also beneficial for many industries in terms of capital fulfillment and sales of goods. But it has certain kind of disadvantages to SSI's (small scale industries) and generation of unemployment largely. Generation of fear aroused due to FDI in country's Farmers as they will not get proper cost for their products and it will affect largely the market of middle man. Ultimately the decision lies with the Government has to implement certain policies. Government should encourage FDI on Gradual basis. Government should promote FDI but it should have redesigned framework for the local players.

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