



Impact of Fdi in Indian Economy with Special Reference to Retail Sector in India

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ABSTRACT

India being a signatory to World Trade Organization's General Agreement on Trade in Services, which include wholesale and retailing services, had to open up the retail trade sector to foreign investment. Given that 95% of the sector constitutes unorganized retail consisting largely of "mom and pop" stores, the Government has treaded cautiously by building adequate safeguards for the domestic stakeholders in the unorganized sector. Only those foreign retailers who first invest in the back-end supply chain and infrastructure would be allowed to set up multi brand retail outlets in the country. The idea is that the firms must have already created jobs for rural India before they venture into multi-brand retailing. It can be said that the advantages of allowing unrestrained FDI in the retail sector evidently outweigh the disadvantages attached to it and the same can be deduced from the examples of successful experiments in countries like Thailand and China where too the issue of allowing FDI in the retail sector was first met with incessant protests, but later turned out to be one of the most promising political and economical decisions of their governments and led not only to the commendable rise in the level of employment but also led to the enormous development of their country's GDP.

KEYWORDS: Foreign Direct Investment, Inflows, Multi Brand Retailing, Single Brand Retailing.

Introduction

India being a signatory to World Trade Organization's General Agreement on Trade in Services, which include wholesale and retailing services, had to open up the retail trade sector to foreign investment. There were initial reservations towards opening up of retail sector arising from fear of job losses, procurement from international market, competition and loss of entrepreneurial opportunities. However, the government in a series of moves has opened up the retail sector slowly to Foreign Direct Investment (FDI). In 1997, FDI in cash and carry (wholesale) with 100 percent ownership was allowed under the Government approval route. It was brought under the automatic route in 2006. 51 percent investment in a single brand retail outlet was also permitted in 2006.

Foreign Direct Investment

FDI stands for Foreign Direct Investment, a component of a country's national financial accounts. Foreign direct investment is investment of foreign assets into domestic structures, equipment, and organizations. It does not include foreign investment into the stock markets. Foreign direct investment is thought to be more useful to a country than investments in the equity of its companies because equity investments are potentially «hot money» which can leave at the first sign of trouble, whereas FDI is durable and generally useful whether things go well or badly

FDI Policy in India

FDI as defined in Dictionary of Economics (Graham Bannock et.al) is investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new (Greenfield) site. To put in simple words, FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy.

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 Reserve Bank of India ('RBI') in this regard had issued a notification, which contains the Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000. This notification has been amended from time to time.

The Ministry of Commerce and Industry, Government of India is the nodal agency for motoring and reviewing the FDI policy on continued basis and changes in sectoral policy/ sectoral equity cap. The FDI policy is notified through Press Notes by the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP).

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.

FDI Policy with Regard to Retailing in India

It will be prudent to look into Press Note 4 of 2006 issued by DIPP and consolidated FDI Policy issued in October 2010 which provide the sector specific guidelines for FDI with regard to the conduct of trading activities.

- FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.
- FDI up to 51 % with prior Government approval (i.e. FIPB) for retail trade of 'Single Brand' products, subject to Press Note 3 (2006 Series)
- FDI is not permitted in Multi Brand Retailing in India.

FDI in Multi Brand Retail

The government has also not defined the term Multi Brand. FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof.

In July 2010, Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce circulated a discussion paper on allowing FDI in multi-brand retail. The paper doesn't suggest any upper limit on FDI in multi-brand retail. If implemented, it would open the doors for global retail giants to enter and establish their footprints on the retail landscape of India. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous 'kirana' store.

Advantages

- Increase economic growth by dealing with different international products
- 1 million (10 lakh) employment will create in three years - UPA Government
- Billion dollars will be invested in Indian market
- Spread import and export business in different countries
- Agriculture related people will get good price of their goods

Disadvantages

- Will affect 50 million merchants in India
- Profit distribution, investment ratios are not fixed

- An economically backward class person suffers from price raise
- Retailer faces loss in business
- Market places are situated too far which increases traveling expenses
- Workers safety and policies are not mentioned clearly
- Inflation may be increased
- Again India become slaves because of FDI in retail sector

Objectives of the Study

1. To Know the reasons for investing retail industry in India.
2. To Analyze the impact of FDI in retail sector in India.
3. To Study the trends in FDI in different sector in India.

Data Collection

The analysis will be done with the help Secondary data (from internet site and journals). The data is collected mainly from websites, annual reports, World Bank reports, research reports, already conducted survey analysis, database available etc.

The Reasons for Investing Retail Industry in India

AT Kearney (a globally famous international management consultancy) recognized India as the second most alluring and thriving retail destination of the world, among other thirty growing and emerging markets. At present, other profitable retail destinations of the world are China and Dubai of Asia. Diverse foreign direct investment in Indian retail is greatly cherished by most of the major and leading retailers of USA and European countries, including Walmart (USA), Tesco (UK), Metro (Germany), and Carrefour (France). Liberalization of trade policy and loosening of barriers and restrictions to the foreign investment in the retail sector of India, have collectively made the **FDI in retail sector** quite easy and smooth. Our services are easily and economically available for the following ways of FDI in Indian retail.

The Retail sector of India is vast, and has huge potential for growth and development, as the majority of its constituents are un-organized. The **retail sector of India** handles about \$250 billion every year, and is expected by veteran economists to reach to \$660 billion by the year 2015. The business in the organized retail sector of India, is to grow most and faster at the rate of 15-20 per cent every year, and can reach the level of \$100 billion by the year 2015. Here, it is noteworthy that the retail sector of India contributes about 15 per cent to the national GDP, and employs a massive workforce of it, after the agriculture sector. India's growing economy with a rate of approximately 8 per cent per year, makes its retail sector highly fertile and profitable to the foreign investors of all sectors of commerce and economy, of all over the world. Global Jurix, a full-fledged legal organization prominent worldwide, provides all-encompassing services and advice for most lucrative and secured FDI in Indian retail sector.

Table - 01
FDI Inflows in Different Sectors in India

Sl.No	Sector	FDI Inflows 2000-2012 August in US \$	%
01	Services Sector	158252	19
02	Construction	97028	12
03	Telecommunications	57188	7
04	Computer Software and Hardware	51149	6
05	Drugs and Pharmaceuticals	45440	5
06	Chemicals	39468	5
07	Power	34936	4
08	Automobile Industries	34201	4
09	Metallurgical Industries	30142	4
10	Petroleum and Natural Gas	24783	3

Source: DIPP, Federal Ministry of Commerce & Industry, Government of India

Table 1 clearly indicates the FDI inflows in different sector for the period of April 2000 – August 2012. Most of the Foreign countries were liked to invest their amount in service sector, Construction Industry, Telecommunications and Computer software and Hardware, because these sectors earn more profit compared to others.

Figure - 01
FDI Inflows in Different Sectors in India

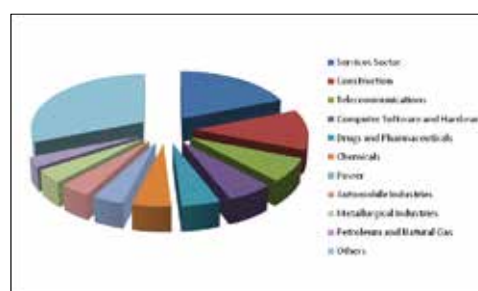


Table - 02
FDI inflows in India (Amount US\$ in Millions)

S.No.	Financial Year	Total FDI Inflows	% Growth over previous year
01	2004-05	6,051	(+) 40
02	2005-06	8,961	(+) 48
03	2006-07	22,826	(+) 146
04	2007-08	34,362	(+) 51
05	2008-09	35,168	(+) 02

Source: DIPP, Federal Ministry of Commerce & Industry, Government of India

Table 2 reveals the FDI inflows in India for the period of 2004-05 to 2008-09. The inflows of FDI are increased year by year due to various reasons, such as Heavy Demand of Indian Consumers, Liberalized Government Policy, Communications facilities.

Table - 03
Share of Top ten investing countries FDI inflows in India

S.No.	Country	Cumulative FDI inflows (2000-2012 Aug)	% of Total Inflows US\$	Rank
01	Mauritius	3,03,262	37	1
02	Singapore	82,867	10	2
03	U.K	77,694	10	3
04	Japan	64,297	8	4
05	U.S.A.	49,126	6	5
06	Netherlands	37,319	4	6
07	Cyprus	31,148	4	7
08	Germany	23,031	3	8
09	France	13,871	2	9
10	U.A.E	10,823	1	10
Total		8,19,586		

Source: DIPP, Federal Ministry of Commerce & Industry, Government of India

Table 3 Shows that Top ten countries investing in India. Out of this Mauritius plays major role in FDI inflow in India. The main reason for higher levels of investment from Mauritius was that the fact India entered into a double taxations avoidance agreement (DDTA) with Mauritius were protected from taxations in India. Singapore and U. K. equally invest (10 per cent) in India during the study period. Japan and U.S.A. following countries 8 per cent and 6 per cent respectively.

Impact of FDI In Retail Sector In India

Retail Growth story in India is not only providing domestic players to take their businesses to a new orbit but is also attracting foreign players as they are left with little or no hope to grow further in their structured home markets. The increasing disposable income among the Indian middle class, the burgeoning young population is touted as the main reason for such attractive optimism. The positivity about Indian retail scene has also led to an intense lobbying by certain sections for opening Foreign Direct Investment in this sector. India has positioned itself as a promising market for retailers worldwide by virtue of its under-noted strengths :-

- India has witnessed a frenetic pace of retail development over the past five years.
- Goldman Sachs has estimated that the Indian Economic growth could actually exceed that of China by 2015.
- Retail which contributes 10 per cent of our GDP is the largest source of employment after agriculture.
- The Indian Retail market was estimated to be US \$ 427 billion by 2010 & US \$ 637 billion by 2015.

- This will bring modern technology to the country
- Improve rural infrastructure. It would help build infrastructure and create a competitive market
- Reduce wastage of agricultural produce.
- Enable our farmers to get better prices for their crops.
- Consumer will get commodities of daily use at reduced prices.
- Biggest beneficiary of this would be small farmers, to would be able to improve productivity and realize higher remuneration by selling directly to large organized players and shorten the change the form to consumers.
- Government too stands to gain by this move through more transparent and accountable monetary goods and supply chain management systems. It can expect to receive an additional US\$ 25 to 30 Billion by way of Taxes.
- Opening of retail can be seen solution for food Inflation, which has been a confirmed policy- maker. FDI in retail would help in building much needed back end infrastructure

Conclusion

A large number of changes that were introduced in the country's regulatory economic policies heralded the liberalization era of the FDI policy regime in India and brought about a structural break through in

the volume of the FDI inflows into the economy maintained a fluctuating and unsteady trend during the study period. It might be of interest to note that more than 50 per cent of the total FDI inflows received by India came from Mauritius, Singapore and the USA.

The main reason for higher levels of investment from Mauritius was that the fact that India entered into a double taxation avoidance agreement (DTAA) with Mauritius were protected from taxation in India. Among the different sectors, the service sector had received the larger proportion followed by computer software and hardware sector and telecommunication sector.

It can be said that the advantages of allowing unrestrained FDI in the retail sector evidently outweigh the disadvantages attached to it and the same can be deduced from the examples of successful experiments in countries like Thailand and China where too the issue of allowing FDI in the retail sector was first met with incessant protests, but later turned out to be one of the most promising political and economical decisions of their governments and led not only to the commendable rise in the level of employment but also led to the enormous development of their country's GDP.

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