

## Research Paper

## Management



## The Determinants and Impact of Foreign Direct Investment on Economic Growth in Developing Countries

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### ABSTRACT

*In the past decades, FDI only concerned with highly industrialized countries US were the largest recipient of FDI During 2006 with an investment Of 184 million OECD (ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT) COUNTRIES. FRANCE, GREECE, ICELAND, POLAND, SLOVAK, SWITZERLAND AND TURKEY have a positive report in FDI investment Now, during the course of time FDI has become a vital part in every country more particularly in developing countries. This is because of following reasons: Availability of cheap labour, uninterrupted availability of raw material, less production compare with other developed countries, Quick and easy market penetration. but an issue of current interest is FDI can contribute to the objective of poverty also the issue is being highly debated by opposition party stating- India will become a country of sales girls and boys were shops run by American and British companies goods". Considering all the facts this paper bring forth a few conceptual issues that may be overlooked.*

### Keywords :

#### Introduction

In ancient times as far as trading is concerned there was no currency at all, instead of that the need of currency was fulfilled by well recognized "Barter System". Bartering was the direct trade of goods and services, for example well civilized Arab Traders used to come to India to sell their horses in Prehistoric Market at Indian Sub-Continent."In exchange of goods "they used to purchase ammunition which has been built by Rajput kingdom and in other goods like animal skin, salt and weapons developed over the centuries. This system of barter and trade was spreading rapidly across the world. During this process, the shift of paper money was emerged in Europe. It has been increased the amount of international trade that could occur such as banks and the ruling classes started buying currencies from other nations and created the first currency market. The competition between countries often led to "Currency Wars", where competing countries would be trying to affect the value of the competitor's currency. On the contradictory way the trading system has been evolved gradually and widely spread all over the world and thereafter the foreign trade has been introduced in developing countries like India and nowadays, it has been on the verge of entry in the field of "foreign trade". India was mostly dependent on its large internal market with external trade accounting for just 20% of the country's GDP. Until the liberalization of 1991, India was largely and intentionally isolated from the world market to protect its economy and achieve its reliance.

After 1991, the concept of globalization, privatization and liberalization was introduced and then in order to strengthen International trading across the world the 'General Agreement on Trade and tariff' (GATT) was launched by several developed and developing countries, and hence as a part of international trading treaty there was India's inclusion, by joining the organized trade group and later it had transformed into WTO.

India has now been considered as one of the dynamic and empowering countries as far as the foreign trade is concerned. The present proforma about foreign trade aims to analyze the Indian retail consumers' awareness towards the FDI. India's rising retail booms is a success story with

mammoth margin US\$ 833 billion by the current year 2013. It is further restricted to reach US\$ 1.3 trillion by the year 2018 at a CAGR (Compound annual growth rate) of 10% which is not sanctioned by the Indians due to tremendous effects on poor developing countries. In last four years, consumer spending in India and boot up to 75%. By the end of the year 2013, the organized sector is also expected to grow at a CGAR 40%. No doubt, FDI is a must-have for capacity addition in several sectors without that, India's dream of double digit GDP growth rate will remain just that a dream.

#### Definition of FDI

First of all, FDI means Foreign Direct Investment which is mainly dealings with monetary matters and using this way they acquires stand alone position in the Indian economy. Their policy is very simple to remove rivals. In beginning days they sell products at low price so other competitor shut down in few months. And then companies like Wall-Mart will increase prices than actual product price. (P.K Jha Logistics Book).

#### FDI and its Significance

FDI plays a major role in developing countries like India. They act as a long term source of capital as well as a source of advanced and developed technologies. The investors also bring along best global practices of management. As large amount of capital comes in through these investments more and more industries are set up. This helps in increasing employment. FDI also helps in promoting international trade. This investment is a non-debt, non-volatile investment and returns received on these are generally spent on the host country itself thus helping in the development of the country. Some of the sectors that attract high FDI inflows in India are the hotel and tourism industry, insurance sector, telecommunication, real estate, retail, power, drugs, financial services, infrastructure and pollution control etc.

#### Contribution of FDI in India:

**Sector-Wise FDI Inflows From April 2000 To January 2012.**

S.No	Sector	Amount of FDI Inflows		%age with total FDI Inflows (+)
		(In Rscore)	(In US\$ million)	
1	SERVICES SECTOR	143878.44	31970.85	19.99
2	TELECOMMUNICATIONS	57049.95	12546.54	7.84
3	COMPUTER SOFTWARE & HARDWARE	49626.45	11106.5	6.94
4	HOUSING & REAL ESTATE (INCLUDING CINEPLEX, MULTIPLEX, INTEGRATED TOWNSHIPS & COMMERCIAL COMPLEXES ETC.)	49024.58	10972.67	6.86
5	CONSTRUCTION ACTIVITIES	49440.18	10867.24	6.79
6	DRUGS & PHARMACEUTICALS	42745.26	9170.24	5.73
7	POWER	32798.25	7214.83	4.51
8	AUTOMOBILE INDUSTRY	29354.31	6469.53	4.04
9	METALLURGICAL INDUSTRIES	26287.48	5909.42	3.69
10	PETROLEUM & NATURAL GAS	14611.84	3338.75	2.09
11	CHEMICALS (OTHER THAN FERTILIZERS)	14703.35	3244.93	2.03
12	HOTEL & TOURISM	14770.58	3229.48	2.02
13	TRADING	14131.09	3126.53	1.95
14	ELECTRICAL EQUIPMENTS	12902.14	2844.75	1.78
15	INFORMATION & BROADCASTING (INCLUDING PRINT MEDIA)	12062.2	2632.88	1.65
16	CEMENT AND GYPSUM PRODUCTS	11324.88	2535.43	1.58
17	MISCELLANEOUS MECHANICAL & ENGINEERING INDUSTRIES	9787.16	2180.26	1.36
18	CONSULTANCY SERVICES	8772.22	1924.54	1.2
19	INDUSTRIAL MACHINERY	7590.94	1664.26	1.04
20	PORTS	6717.37	1635.08	1.02
21	AGRICULTURE SERVICES	6912.48	1445.37	0.9
22	FOOD PROCESSING INDUSTRIES	6324.11	1376.99	0.86
23	NON-CONVENTIONAL ENERGY	6142.37	1324.22	0.83
24	HOSPITAL & DIAGNOSTIC CENTRES	5252.56	1183.04	0.74
25	ELECTRONICS	5214.6	1151.07	0.72
26	TEXTILES (INCLUDING DYED, PRINTED)	5036.27	1104.54	0.69
27	SEA TRANSPORT	4992.35	1100.78	0.69
28	FERMENTATION INDUSTRIES	4480.65	1022.15	0.64
29	MINING	4042.33	937.9	0.59
30	PAPER AND PULP (INCLUDING PAPER PRODUCTS)	3554.22	764	0.48
31	PRIME MOVER (OTHER THAN ELECTRICAL GENERATORS)	2801.95	599.13	0.37
32	MEDICAL AND SURGICAL APPLIANCES	2421.14	514.08	0.32
33	CERAMICS	2171.84	503.79	0.31
34	EDUCATION	2306.13	491.99	0.31
35	RUBBER GOODS	2124.88	454.47	0.28
36	AIR TRANSPORT (INCLUDING AIR FREIGHT)	1924.46	431.2	0.27
37	MACHINE TOOLS	1950.99	428.94	0.27
38	SOAPS, COSMETICS & TOILET PREPARATIONS	1934	411.34	0.26
39	DIAMOND, GOLD ORNAMENTS	1505.37	334.31	0.21

40	VEGETABLE OILS AND VANASPATHI	1300.77	276.56	0.17
41	FERTILIZERS	1196.78	255.35	0.16
42	PRINTING OF BOOKS (INCLUDING LITHO PRINTING INDUSTRY)	1110.39	244.28	0.15
43	RAILWAY RELATED COMPONENTS	1058.18	234.76	0.15
44	COMMERCIAL OFFICE & HOUSEHOLD EQUIPMENTS	1026.7	225.85	0.14
45	AGRICULTURAL MACHINERY	903.7	200.32	0.13
46	GLASS	806	176.2	0.11
47	EARTH-MOVING MACHINERY	728.9	167.33	0.1
48	TEA AND COFFEE (PROCESSING & WAREHOUSING COFFEE & RUBBER)	451.11	100.26	0.06
49	PHOTOGRAPHIC RAW FILM AND PAPER	269.26	66.54	0.04
50	INDUSTRIAL INSTRUMENTS	304.26	65.95	0.04
51	LEATHER, LEATHER GOODS AND PICKERS	267.9	59.6	0.04
52	RETAIL TRADING (SINGLE BRAND)	204.07	44.45	0.03
53	BOILERS AND STEAM GENERATING PLANTS	201.86	41.77	0.03
54	SUGAR	174.64	39.56	0.02
55	TIMBER PRODUCTS	173.56	36.17	0.02
56	COAL PRODUCTION	103.11	24.78	0.02
57	SCIENTIFIC INSTRUMENTS	96.78	21.21	0.01
58	DYE-STUFFS	84.86	19	0.01
59	GLUE AND GELATIN	70.56	14.55	0.01
60	DEFENCE INDUSTRIES	17.68	3.72	0
61	COIR	9.56	2.02	0
62	MATHEMATICAL SURVEYING AND DRAWING INSTRUMENTS	5.05	1.27	0
63	MISCELLANEOUS INDUSTRIES	33596.67	7487.61	4.68
SUB. TOTAL		722833.7	159973.12	
64	RBI'S- NRI SCHEMES (2000-2002)	533.06	121.33	-
GRAND TOTAL		723366.76	160094.45	-

(www.ijcem.org)

### Definition of Retail

It is defined as all activities involved in selling goods or services directly to the final consumer for their personal non-business use via shops, market, door to door selling, and mail order or over the internet is the new source where the buyer intends to consume the product, in 2004, the high court of Delhi defined the term retail as a sale for final consumption in contrast to a sale for further sale or processing i.e. wholesale. A sale to the ultimate consumer. Thus, retailing can be said to be interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as government and bulk customers. Retailing is the last link connects the individual consumer with manufacturing and distribution chain. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit (www.delhibusinessreview.org).

### Role of FDI in Retail sector:

#### Revamping of Indian Retail Industry

It is interesting to focus on the revamping of the retail sector India. Historically they evolved as a source of entertainment (in the form of village fairs) which was within rural reach. Later on these were transformed into Mom and Pop Grocery Stores which are traditional variety of neighborhood shops. Then came the government supported PDS outlets, khadi stores, cooperatives etc. Finally shopping malls, supermarkets, departmental store etc has brought a great revolution to Indian retail market.

### Distinction of Indian Retail:

The development of Indian trading sector over centuries is very different from that of the developed countries. In the developed countries, products and services normally reach consumers from manufacturer/producers through two different channels: (a) via independent retailers ("vertical separation") and (b) directly from the producer (vertical integration). In India, however the above two modes of operation are not very common small and medium enterprises dominate the Indian retail scene. The trading sector is fragmented, with a large number of intermediaries. So also, wholesale trade in India is marked by the presence of thousands of small commission agents, stockiest and distributors who operate at a strictly local level. Retail giants like US based Wal-Mart and French Carrefour are very keen to enter in the segment. Bharti Enterprises and Wal-Mart Stores entered into a joint venture in August 2007 and started cash-n-carry stores named 'Best Price Modern Wholesale' 2009.

### Division of Retail Industry:

The retail industry is mainly divided into:-

- 1) Organized and
- 2) Unorganized Retailing

Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include corporate backed hypermarkets and retail chains, and also the privately owned large retail business.

Unorganized retailing, on the other hand refers to the traditional formats of low-cost retailing, for example, the local grocery shops, owner manned general stores, paan/beedi shops, convenience stores, handcart and pavement vendors etc. The Indian retail sector is highly fragmented 97% of its business being run by the unorganized retailers. The organized retail however is at a very nascent stage in India. Even though this sector is largest source of employment after agriculture, and has deep penetration into rural India generating more than 10 percent of India's GDP.

### FDI in Single Brand Retail

The Government has not categorically defined the meaning of "Single Brand anywhere neither in any of its circulars or nor any notifications.

In single-brand retail, FDI up to 51 % is allowed subject to Foreign Investment Promotion Board (FIPB) approval and subject to the conditions mentioned in the following

Products should be sold under the same brand internationally,

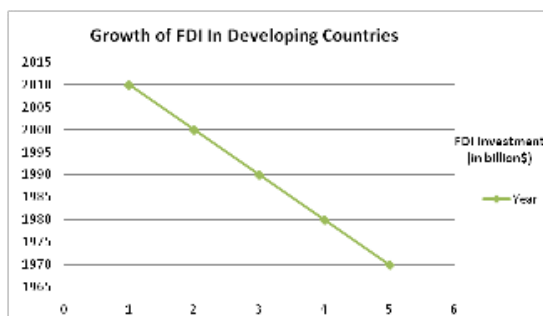
Single-brand product retail would only cover products which are branded during Manufacturing

Any addition to product categories to be sold under "single brand" would require fresh approval from the government.

### FDI in Multi Brand Retail

FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof. 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 "Grocery" store.

Year	\$(in billions)
1970	10
1980	20
1990	26.7
1998	179
1999	208



### Present shape of FDI in Retail

The retail industry in India is the second employer with an estimated 35 million people engaged by the industry. There has been opening of Indian economy to foreign organization for foreign direct investment through organized retail. The union government has sanctioned 51% foreign direct investment in multi-brand like Wal-Mart, Carrefour, and Tesco and up to 100% in single brand retail like Gucci, Nokia and Reebok. This will make foreign goods and items of daily consumption available locally to Indian consumers. The new policy will allow multibrand foreign retailers to set up the shop only in cities with a population of more than 10 Lakhs as per 2011 census. There are 53 such cities. This means that big retailers can move beyond the metropolis to smaller cities. The final decision will however lie with the state governments. Expenditure on land cost and rentals will not be counted for the purpose of back end infrastructure. Big retailers will need to source at least 30% manufactured or processed products from small retailers. The government will go for surprise checks and if found irregularities then the deed will be broken with a second time.

Still, all is not well with the business environment of India, however. Aside from continuing bureaucratization of many processes affecting business, the reforms process in India has weak links. The policy protecting small firms in some sectors has not completely been eliminated; thereby preventing entry of larger and more solvent firms, with greater economies of scale to these sectors. This had adverse impact on the competitiveness of firms in these sectors. And if the government allows such multi brand like Wal-Mart considering the economic growth, it may pound such domestic firms.

### Need and Importance of the research subject:-

The proposed study would be contributed as it creates Awareness and education among the weaker section of society such as end-users and farmers as future prospective about International trading in the country.

- This study is related to FDI and its analytical impact with this reference it would be helpful for Government policy
- This study will be helpful for improving the retail sector.
- In the era of globalization FDI play a dynamic role. This study will help to. each segment and improving sea over trading.

### SUGGESTIONS AND RECOMMENDATIONS :-

This study will work as a review of literature, the government schemes of analysis the problem of the farmers, middleman, end users and also provides relevant information which will be helpful for decision making regarding the nation development

- FDI will make useful for various departments which are related with the different Ministries (Finance, economic, trade, stock).
- We should also exhibit the positive and negative aspects of FDI.
- FDI will also play as an effective tool for deciding the new package and policies for nation development.
- FDI will be important for proposed decision to emphasize for the Investor.

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