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Impact of Foreign Direct Investment on Indian Economy

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IMPACT OF FOREIGN DIRECT INVESTMENT ON INDIAN ECONOMY

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ABSTRACT
India has already marked its presence as one of the fastest growing economies of the world. It has been ranked among the top three attractive destinations for inbound investments. Since 1991, the regulatory environment in terms of foreign investment has been consistently eased to make it investor-friendly. India needs to attract foreign direct investment to accelerate growth

Key Terms: Reserve Bank of India (RBI) Foreign Direct Investment (FDI), Foreign Exchange Management Act (FEMA) Governmental Investment Promotion Agencies (IPAs),

INTRODUCTION
India is the 3rd largest economy of the world in terms of purchasing power parity (PPP) and thus looks attractive to the world for FDI. Even Government of India, has been trying hard to do away with the FDI caps for majority of the sectors, but there are still critical areas like retailing and insurance where there is lot of opposition from local Indians / Indian companies.

Apart from a nation's foreign exchange reserves, exports, government's revenue, financial position, available supply of domestic savings, magnitude and quality of foreign investment are necessary for the well being of a country. Developing nations, in particular, consider FDI as the safest type of international capital flows out of all the available sources of external finance available to them. FDI provides a win – win situation to the host and the home countries. Both countries are directly interested in inviting FDI because they benefit a lot from such type of investment. There is a considerable change in the attitude of both the developing and developed countries towards FDI. They both consider FDI as the most suitable form of external finance. FDI is a predominant and vital factor in influencing the contemporary process of global economic development

Foreign Direct Investment in India (FDI) increased to 3577 USD million in September of 2014 from 2514 USD million in August of 2014. Foreign Direct Investment in India averaged 1009.21 USD million from 1995 until 2014, reaching an all time high of 5670 USD million in February of 2008 and a record low of -60 USD million in February of 2014(Refer 1 & 2).

Retail is the sale of goods and services from individuals or businesses to the end-user. Retailers are a part of an integrated system called the supply chain. A retailer purchases goods or products in large quantities from manufacturers directly or through a wholesale, and then sells smaller quantities to the consumer for a profit. Retailing can be done in either fixed locations like stores or markets, door-to-door or by delivery.

In the 2000s, an increasing amount of retailing is done online using electronic payment and delivery via a courier or postal mail. Retailing includes subordinated services, such as delivery. The term "retailer" is also applied where a service provider services the needs of a large number of individuals, such as for the public. Shops may be on residential streets, streets with few or no houses, or in a shopping mall. Shopping streets may be for pedestrians only. Sometimes a shopping street has a partial or full roof to protect customers from precipitation.

Online retailing, a type of electronic commerce used for business-to-consumer (B2C) transactions and mail order, are forms of non-shop retailing.

Shopping generally refers to the act of buying products. Sometimes this is done to obtain necessities such as food and clothing; sometimes it is done as a recreational activity. Recreational shopping often involves window shopping (just looking, not buying) and browsing and does not always result in a purchase (Refer 3).

DEFINITION
The part of a country's economy that is made up of businesses that sell goods through stores, on the internet, etc. to the public: Share prices in the retail sector have been driven up by takeover activity. The retail sector has held up well (Refer 4).

MEANING
The retail sector includes all the shops that sell goods to the ultimate customer, who buys them for personal and not business use. It encompasses all kinds of shops, from kiosks and small groceries to supermarket chains and

large department stores. In addition to traditional bricks-and-mortar shops, the retail sector includes mail-order and online businesses (Refer 5).

EXPLANATION

Until 2011, foreign direct investment (FDI) was not allowed in multi-brand retail, forbidding foreign companies from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51 per cent ownership.

In January 2012, India allowed 100 per cent FDI investment in single-brand stores, but imposed the requirement that the single brand retailer would have to source 30 percent of its goods from India. On 7 December 2012, India allowed 51 per cent FDI in multi-brand retail. Dr.Manmohan Singh, the then prime minister of India, felt that this would be beneficial for both consumers and farmers. Agricultural marketing was also expected to be benefited with the introduction of new technologies.

Dr.Manmohan Singh was credited with bringing about this policy change aimed at making India friendlier for businessmen. With this decision, international companies, especially the supermarkets, were able to increase their presence in the multi-brand retail sector of India. However, they were not allowed to own more than 51 per cent stakes in these establishments. This step was regarded as the most important one in the last two decades, especially with regard to reforms in India.

Need for Foreign Direct Investment (FDI) in India

- Domestic capital is inadequate for purpose of economic growth;
- Foreign capital is usually essential, at least as a temporary measure, during the period when the capital market is in the process of development;
- Foreign capital usually brings it with other scarce productive factors like technical know how, business expertise and knowledge

Reasons for promotion of FDI in Retail sector

- The major benefit of FDI is that it is both supplementary and complimentary with regards to local investment.
- FDI lets a company gain better access to top class technology and supplementary funds. They are also exposed to management practices in vogue around the world and also get the chance to become a part of the global market system.
- The Indian government had commissioned Indian Council for Research on International Economic Relations (ICRIER) to perform a study on the effect of organized retailing practices on its unorganized counterpart. The study hinted at the advantages that the growth of organized retail will have for various participants like the consumers, manufacturers, and farmers.
- The government decided on the basis of the results in other countries and the ICRIER study that this decision would result in a greater influx of FDI in both back and front end infrastructure. It was expected that the agricultural sector would become more efficient and be in a better position to use technology.
- It was also expected that this decision would result in more and better jobs being created and the best practices around the world will be introduced in India. Both farmers and consumers will see more convenient prices and higher quality in future and this will help both the classes.
- The government also put in an obligatory condition before foreign companies for procuring 30 percent supplies from local producers in order to provide a fillip to the manufacturing sector in India. Jobs are expected to be available in both rural and urban areas thanks to greater back and frontal operations resulting from more FDI.
- Domestic retail entities and traders are expected to pull up their socks and increase their efficiency ever since this decision. Consequently, the consumers are expected to receive better services and the producers who provide the source products also get better payment.

Process of Foreign Direct Investment (FDI) in Retail sector

There is no such procedure for short listing the companies. International companies who are willing to invest in either single or multi-brand retail can put in their applications with the Department of Industrial Policy and Promotion.

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Here the applications are reviewed in an effort to determine their suitability as per the stated guidelines. Subsequently, the Foreign Investment Promotion Board, Ministry of Finance will consider the applications before providing the final approval.

Advantages of FDI in retail sector

- India's retail industry is one of the biggest around the world when it comes to the privately owned ones. The industry has seen some major restructuring thanks to the FDI structure becoming more liberal than before.
- The benefits of FDI in retail, as per experts, carry greater weightage than the cost related implications.
- With FDI in retail, operations in distribution and production cycles are expected to become better. Owing to factors such as economic operations, the cost of production facilities will come down as well. This will mean a greater choice of products at lesser and justifiable prices for the customers.
- As a result of FDI, companies will be able to bring in technology and skills from other countries and this will help in infrastructural development of India. This will also help in creating more value for money for the buyers.
- After FDI in retail, it is possible to set up a properly organized chain of retail stores as the capital to do is readily available.
- The investment can be regarded as a long term one as the physical capital put into a domestic company is not liquidated easily. This is its main difference from equity capital.
- ICRIER had also predicted that if FDI in retail was introduced in India during 2011-12, the Indian economy could have grown by 13 per cent; the unorganized sector could have seen a 10 per cent growth and the organized sector could have increased by 45 per cent.

Disadvantages of FDI in retail sector

- Experts say that while analyzing the positives and drawbacks of FDI in retail, both the government and the opposition did not refer to the Parliament Committee report where its effects had been studied in great detail. The committee had taken into cognizance many witnesses, NGOs, individuals, and trade associations to come up with the said report.
- The Committee visited various corners of India and also went through reports and gathered knowledge about the experience of similar decisions in other countries. It also enquired from several government departments regarding the matter.
- The Committee had surmised in its report that the number of people getting jobs will be lesser than the amount of people losing the same as a substantial amount of marginal and small farmers will be wiped out.
- Some other problems expected out of this were aggressive pricing and prevalence of monopoly.
- As per the Committee's report almost 8 percent of India's workforce is employed in the unorganized retail sector. This comes up to roughly 40 million people. It has been stated that FDI in retail will generate 2 million jobs. However, the Committee had stated that it is not a proper indication as it does not take into account the number of people who already work in the retail sector.
- ICRIER had executed a second study on the effects of FDI in retail during 2011 and in that it had stated that FDI will bring about a fantastic shopping experience for the consumers. It had actually interviewed 300 people from the middle and high income groups. Thus, in effect, the efforts of the Parliament Committee were overlooked for a private organization.
- Experts have questioned the logic of ICRIER to question 300 people in a country with a 1.2 billion population and more than 40 per cent who can be termed as poor.
- The Parliamentary Committee report on FDI was never discussed in Parliament itself, and as per experts, it is not a good sign as far as the democratic system in India is concerned.
- As per ICRIER, consumerism is positive for economic growth. In 2008 the first survey had dealt with 2020 small and unorganized retailers whereas the total count of such entities in India at that time was 6 million.
- Leading economic experts from outside India have also posed the same question. They have also pointed at the labor practices of organizations such as Wal-Mart. Most of these are not exactly healthy for workers. This has also led them to ask if such processes were really required in India.

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- It is being said that the lobby favoring FDI in retail in India has invested at least Rs 52 crore and experts opine this could have had a major say in the way things turned out.

Challenges in introducing FDI in retail

Indian market has high complexities in terms of a wide geographic spread and distinct consumer preferences varying by each region necessitating a need for localization even within the geographic zones. While India presents a large market opportunity given the number and increasing purchasing power of consumers, there are significant challenges as well given that over 90 per cent of trade is conducted through independent local stores. Challenges include: Geographically dispersed population, small ticket sizes, complex distribution network, little use of IT systems, limitations of mass media and existence of counterfeit goods (Refer 6).

Political opposition to FDI in retail

The then opposition party in India, Bharatiya Janata Party (BJP) was opposed to FDI in retail. As stated by the then Leader of Opposition in Lok Sabha and now Union Minster for External Affairs, Sushma Swaraj, the UPA never tried to create any consensus regarding the issue or talk with the opposition prior to their campaign in support of FDI in retail.

Swaraj also expressed her worries regarding the possible condition of small traders and farmers once FDI was introduced in retail. She stated that the big retailers were not coming to India because they wanted to be charitable but because they saw India as a major market.

Mulayam Singh Yadav, the head of Samajwadi Party, and an opponent of FDI in retail also questioned the logic of introducing the same only in the bigger cities with more than 10 lakh people. Yadav felt that this decision would only result in unemployment. Trinamool Congress (TMC), a former ally of UPA, had left the coalition during September 2012 as a mark of protest against steps like FDI in retail. Now that the BJP-led government is in power at the Centre, it is to be seen whether it goes ahead with the decision to allow 51 per cent foreign direct investment (FDI) in multi-brand retail by the UPA-II government. Though Nirmala Sitharaman, in charge of the commerce and industry portfolio as well as a minister of state for Finance and Corporate Affairs, has stated that the party is against FDI in multi-brand retail, reversing the decision of the previous government will not be easy, given the Narendra Modi government's keenness to woo investment, both domestic and foreign, to improve the Indian economy (Refer 7)

CONCLUSION

The Government should design the FDI policy in such a way where FDI inflows can be utilized as means of enhancing domestic production, savings and exports through the equitable distribution among states so that they can attract FDI inflows at their own level. FDI can help to raise the output, production and export at the sectoral level of the Indian economy. It is advisable to open up the export oriented sectors and higher growth of economy could be achieved through the growth of these sectors

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