Foreign Direct Investment (FDI) In Retail Sector:

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Foreign direct investment (FDI) means "cross border investment made by a resident in one economy in an enterprise in another economy, with the objective of establishing a lasting interest in the investee company. Basically there are two types of foreign investment ie. Foreign direct investment and portfolio investment. Portfolio investment means investing the capital in buying equities, bonds or other securities abroad. FDI is beneficial for maintaining economic stability of Indian economy. It enhances the production capacity, helps in transfer of latest technologies, generating employment opportunities and improves standard of living and it will expand the infrastructure of the country. Oppositions believe that FDI results in exit of small domestic retailers from the market and distortion of urban cultural development. This paper makes some policy suggestions to address the constraints in promoting sustainable FDI in India. The paper focuses on the opportunities of expansion of FDI in retail in India and the major challenges that it faces.

Keywords: FDI, Indian retail sector, opportunities and challenges, balance of payments, imports and export.

Introduction:

Retailing in India is one of the pillars of its economy. Indian retail sector accounts for 14-15 % of its GDP. FDI is also described as "Investment into the business of a country by a company in another country". Such investment can take place for many reasons, including taking advantage of cheaper wages, special investment privileges like tax exemptions offered by the country.

Among the various forms of foreign investment, FDI flows are usually proffered over other forms of external finance because they are now debt creating, non-volatile and their returns depends on the performance of projects financed by the investors. FDI provides benefits to both the host and the home countries. The home countries want to take the advantage of vast markets opened by Industrial Growth. On the other hand the Host countries want to acquire Technological and management skills and foreign exchange.

After farming, retailing in India is the major occupation. The Indian retail market is estimated to be US $500 billion and one of the top 5 retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with more than 40 million people. Even though organized retail sector in India is at the infant stage, India has become a budding target for FDI. India offers most persuasive investment opportunities to mass merchants and food retailers looking to expand overseas.

Objectives:

- To study the trends in retail Industry.
- To evaluate the impact of FDI on the Indian economy.
- To analyses the benefits and concern with regard to opening of retail sector for FDI.
- To know the flow of investment in India.
- To identify the determinants of FDI inflows.
- To identify the problems relating to Inflows of FDI.

Fdi Policy With Regard To Retailing In India:

FDI refers to capital inflows from abroad that in 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 Foreign exchange management act (FEMA) 1999. The Reserve Bank of India (RBI) in this regard has issued a notification which contains the foreign exchange management regulations 2000. 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 up to 51% with prior government approval i.e. FIPB for retail trade of single brand products. FDI is not permitted in Multi brand retailing to India.

Foreign Direct Investment and Economic Growth In India:

The Indian economy has reached in the orbit of high rate of economic growth. FDI is being widely considered as an emerging Global economic power. As the third largest economy in the world in PPP terms, India

Groming Indian Economy

Parameter	Fy 2004	Fy 2009	Fy 2012	Fy 2013	Fy 2014
GDP (current price, US$ bn)	617.3	1224.1	1880.3	1858.7	1877.5
GDP Growth (constant prices, %)	8.5	6.7	6.7	4.5	4.7
Exports-Merchandise (US$ bn)	63.8	185.3	306.0	300.4	312.6
Imports-Merchandise (US$ bn)	78.1	303.7	489.3	490.7	450.1
Exports-Services (US$ bn)	26.9	106.0	142.3	145.7	151.5
Software Exports (US$ bn)	13.3	46.3	62.2	65.9	69.5
Imports-Services (US$ bn)	16.7	52.0	78.2	80.8	78.5
Current Account Balance (US$ bn)	14.1	-28.7	-78.2	-87.8	-32.4
Forex Reserves (US$ bn) (as on end March)	113.0	252.0	294.4	292.0	304.2
FDI Inflows (US$ bn)	4.3	41.9	46.6	34.3	36.0
FDI outflows (US$ bn)	1.9	19.4	10.9	7.1	9.2

Source: Trade Map

is preferred destination for foreign direct investment (FDI). Today, India provides highest returns on FDI than any other county in the world. India has strengths in information technology and other important areas such as auto components apparels, chemicals, pharmaceuticals, jewellery and so on.

In 2003, the government released FDI norms in several sectors including Telecom, defense, PSU oil refineries, power exchange, and stock exchanges. During FY 2012-13, India attracted FDI worth US $22.42 billion. Tourism, pharmaceuticals, services, chemicals and construction were among the biggest beneficiaries.

In 2013, the period from Jan-Nov witnessed mergers and acquisitions deals worth US $26.76 billion in India, according to survey by Tax advisory firm Grant Thornton.

Projections of Fdi Inflows To India:

FDI inflow into India before 1991 was minimal with the Compounded Annual Growth Rate showing only 25.46 percent. During this period, foreign investments into India were restricted and allowed moderately in few sectors. This is mainly because of the kind of policies which the government of India has adopted over the years which includes, `inward looking strategy'; and dependence of external borrowings. In turn, the borrowings resulted in foreign debts which were preferred to the foreign investments to bridge the gap between domestic savings and the amount of investments required. In 1991, when the government of India started the economic reforms program, FDI had suddenly become important for India which was looked upon as a key component of economic reforms package.

The New Industrial Policy of 1991 gave utmost priority in attracting FDI inflows. In this process, the government started opening up of domestic sectors to the private and foreign participation which was earlier reserved only for the public sector. This was followed by slow but with significant relaxation of regulatory and entry restrictions on FDI inflows. Later substantial increase in the volume of FDI inflows into India was observed during the Post Liberalization period. During the initial phase of post liberalization period i.e., from 1991 to 1998, there was continuous increase in the FDI inflows. The total amount of the FDI inflows during the period 1991-92 to 1997-98 had amounted to US$10,868 million. The increase was largely due to the expanded list of industries or sectors which were opened up for foreign equity participation. This was followed by relaxation of various rules, regulations and introduction of various policies by the government to promote the FDI inflows. FDI inflows declined to the level of US$2,462 million in the year 1998-99 and further to US$2,155 million in 1999-2000. The reasons for the declining trend of FDI inflows were due to various set of factors.

Firstly, the most important factor was the several restrictions imposed on India by the USA on account of the nuclear test carried out by India at Pokhran. The second factor was the slowdown of the Indian economy due to the mild recession in US and global economy. The third one was about unfavorable external economic factors such as the financial crisis of South-East Asia. Fourthly, the decline was due to the political instability and the poor domestic industrial environment. In 2002-03, FDI inflows were declined to US$ 5035. They were also reduced to US$ 4322 during 2003-04. This fall in flow of FDI into the country was due to the Global economic recession. Then, from 2004-05 onwards, there has been steady increase in the flow of FDI into the country with highest annual growth rate which has reached 154.72 percent during 2006-07.

The compounded annual growth rate (CAGR) which was 25.46 percent during Pre liberalization has increased to 34.73 percent during the Post liberalization period. This shows the openness of the Government in liberalizing and globalizing the economy to the outside world through relaxation of regulatory and entry restrictions on FDI inflows. Thus, on analyzing FDI inflows into the country over a period of 30 years it is

observed that the compounded annual growth rate (CAGR) is 25.46 percent during 1980-81 to 1990-91 i.e., during the pre liberalization period. On comparison with the post liberalization period, it is found that the annual compounded growth rate has excavated to 34.73 percent showing the relaxation of regulatory and entry restrictions on FDI inflows in the economy. This shows that the importance of FDI into the country is realized by the Government during the Post liberalization period. In this period of 19 years, steady increase of FDI inflow was observed from1991-92 to 2009-10 except the period from 1998-99 to 1999-00 and again the period from 2002-03 to 2003-04.

Role of The New Government:

The new government of India focuses on manufacturing is also aimed at giving employment to millions of youth and enhancing the county's GDP.

The government has set the ball rolling to boost manufacturing by opening up crucial sectors like defense and railways to FDI within 3 months of assuming office. Besides, it has decided to set up eight electronics manufacturing hubs and seven electronics manufacturing clusters across the country that will help reduce dependence on imports and cult the burgeoning trade deficit.

Finance Minister ARUN JAITELY, in his maiden Budget speech last month, also reduced customs duty on key items such as oil, battery waste, steel grade, limestone, coal tar and electronics to encourage domestic production.

The union cabinet has recently given its go ahead to an increase in the composite capital of foreign investment in defense to 49% from 26% and approved 100& FDI in railways infrastructure. "Electronic manufacturing shall be the key area of priority for this government. Telecom minister RAVI SHANKAR PRASAD has said that this sector has the potential to give employment to 28 million people.

Factors That Are Taking Indian Markets To All Time High:

A mix of global and domestic factors is pushing the benchmarks to newer highs:-

- US markets at record high:- The US markets are at all time high on the back of strong liquidity systems. The additional liquidity is likely to enter emerging markets, including India. Investors are waiting for signals from the US Federal Reserve on Interest rates hike.
- GDP growth at 6%:- The pick-up in industrial production and approval for stalled projects are expected to give a push to India's GDP. The recent measures focus on inflation control and opening up of FDI in insurance and defense are some of the positive steps by the government. The IIP data has improved in the last 3 months and will aid GDP growth recovery.
- Stability in the Middle East: US may attack militant group ISI's in Syria, which have been consolidating their positions and gaining ground support, on the defensive. This will bring stabilize the crude oil prices which have seen a sharp corruption in the last few weeks. India is likely to benefit from it as it will have a positive impact on curtailing CAD and inflation.
- Hopes from the Modi government: The new government center has been taking corrects measures in terms of policy and economic decisions.
- Bullish investment: The market experts are bullish on Indian markets and they are expecting the NIFTY continue with its upward momentum at least till DIWALI.

India-an Emerging Ecomomic Power House:

According to EXIM BANK of India:-

- World's 10th largest economy based on nominal GDP in 2013
- World's 3rd largest economy in terms of purchasing power parity (US $5.1 billion in 2013), after USA and china, expected to cross US $5 trillion by 2016.
- Recovery in real GDP growth; estimated growth rate of 5.4%-5.9% in FY 2015 (union budget 2014-15)
- Favorable demographic profile; 64.8% of the population is in the age group of 15 to 59 years.
- Stable forex reserves, increased to a CAGR of 7.9% over FY 2..5 to FY 2014.
- Sovereign rating; Baa3/stable (Mooddy's), BBB-/negative (S & p), BBB-/stable (Fitch),
- Ranks 3rd among the most favored investment estimations in the world (behind China $ USA) in UNCTAD's world investment prospects 2013-15
- JBIC Survey on overseas business operations by Japanese Manufacturing companies:

- Second to china as the most promising country for investment in the long term.
- Second to Indonesia as the most promising country for investment in the medium term.

Opportunities of FDI in Retail In India:

- Global retail giant take India as key market. Food and apparel retailing are key drivers of growth.
- Rural retailing is still unexpected Indian market. It will enhance the financial condition of farmers.
- FDI can become one of the largest industries in terms of numbers of employees and establishments.
- Big market along with better technology.
- Boost healthy competition and check inflation.
- Consumers in the organized retail will have the opportunity to choose between a number of internationally famous brands with pleasant shopping environment, huge space for products display, maintenance of hygiene and better customer care.

Threats of FDI Policy:

- The major threat to the survival of small retailers of India
- It may also lead to unfair competition and ultimately result in large scale exit of domestic retailers, especially the small family managed outlets, leading to large scale displacement of persons employed in the retail sector.
- FDI may produce some adverse distributional and employment effects in the host country.
- Jobs in the manufacturing sector will be lost.

Conclusion:

It can be concluded that to keep pace with the forecast of Indian GDP, government should encourage foreign Investment. FDI in retailing is going to attract retail players by Indian government, but India should welcome then with a pool of human resources by promoting institution imparting knowledge in retailing. The government must properly discuss the pros & cons of allowing 51% of FDI and have a law in place to control unfair competition. FDI plays an important role in the long term development of a country not only as a source of capital But also for enhancing competitiveness of the domestic economy through transfer of technology, strengthens Infrastructure, raising productivity, and generating new employment opportunities.

Therefore, there is an urgent need to adopt innovative policies and good corporate governance practices on par with international standards, by the government of India, to attract more and more foreign capital in various sectors of the economy to make India developed economy.

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