

# Cross broader transaction in one economy – FDI - Positive attitude towards providing the solution

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## ABSTRACT

*Indian market is one of the largest markets with high purchasing power. It is not possible for Indian government alone to develop world class infrastructure and other allied facilities because of huge investment requirement. FDI in India has in a lot of ways enabled India to achieve a certain degree of financial stability, growth and development. In order to create new & more jobs, FDI is the success mantra now. FDI no doubt is creating innovation in retail sector but simultaneously it may pull down the local and domestic retailers of India which is surely a concern to worry about for Indian government. It reduces the gap between farm prices and retail prices. Gives best management practices from all over the world. This paper traces the economic progress made by India's Retail Sector in the planning era, and the emerging issues under globalization. It examines the socio-economic magnitudes, problems and challenges of the country as well as the pitfalls in FDI planning in India. The paper also makes some policy suggestions to address the constraints in promoting sustainable FDI in India.*

**Keywords:** FDI, Retail, WTO

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## Introduction:

India's retail sector has undergone a rapid transformation over the past decade and this process is expected to strengthen in coming years with the rise in population, per capita income and urbanization. Potential to be the real growth engine of a country's economy. Growing consumerism, changes in consumers' tastes and preferences, and heightened brand consciousness has been fast replacing traditional mom and pop stores with organized retail malls that house lifestyle and luxury brands from national and international retailers. Indian retail industry is the biggest industry in comparison to other industries. It occupied 14% of India's Gross Development Product and near about 8% of the employment. Foreign Direct Investment (FDI) as defined in Dictionary of Economics is investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new site. In short FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy.



Figure 1 : FDI in India

**Types of FDI:** There are two types of FDI: inward foreign direct investment and outward foreign direct investment, resulting in a net FDI inflow (positive or negative) and “stock of foreign direct investment,” which is the cumulative number for a given period. Direct investment excludes investment through purchase of shares. FDI is one example of international factor movement. Foreign direct investment refers to investment in a foreign country where the investor retains control over the investment. It typically takes the form of starting a subsidiary, acquiring a stake in an existing firm, or starting a joint venture in the foreign country. In India, as per the rules of liberalization, FDI comes through five routes. These are: the government (SIA/FIPB), RBI (automatic route), investment by NRIs, acquisition of shares, and equity shares of unincorporated bodies.

To bridge the gap in the flow of funds in the public sector, more participation of the private sector is necessary. For developing countries, foreign capital can be a good source of funds. It may involve equity participation by foreigners as: (i) direct investment, and (ii) portfolio investment.

**The importance of FDI:** FDI plays a very important role in the development of an economy due to a number of reasons, some of which are listed below:

1. Helps to avoid foreign government pressure for local production.
2. Aids in circumventing trade barriers, hidden and otherwise.
3. Enables making the move from domestic export sales to a locally-based national sales office.
4. Helps in increasing the total production capacity.
5. Presents greater opportunities for co-production, joint ventures with local partners, joint marketing arrangements, licensing, etc.

**FDI in retail:** The Indian government feels that FDI in retail will help farmers, create jobs, and benefit consumers by leading to an improved supply chain and lower prices. Retailers in the unorganized sector may face some problems initially, but after some time, they are bound to gain. The entry of multinational retailers may lower the sales increase for unorganized retailers, but it will not reverse their growth in the near future. We have to learn from the Japanese experience. The farm sector is going to benefit from FDI in retail. Indian farmers typically earn a third instead of the international norm of two-thirds of the final price of their produce, either because of wastage or because of exploitation by middlemen. This situation will improve with FDI in the retail sector. The Indian cold chain market has the potential to grow to 320 billion by 2015 from around 185 billion in 2010-2011, according to a study.

**The pitfalls:** Critics of FDI in retail say the move will displace farmers, create unemployment and will leave consumers at the mercy of a powerful cartel known for its tough bargaining power. The move will distort the existing economic harmony in unorganized retail, dismantle the economic spine of the country, and enrich corporate capital but impoverish India's social capital. India's small traders are not equipped to compete with big and powerful ones. They do not have the expertise and the capital to do so; they are not in a position to buy goods at a lower price. The big chains have a capacity to sustain losses for a longer period. They can also undercut prices of goods to eliminate small traders. Also, most laborers in India are semi-skilled. The retail sector is the most appropriate source of livelihood for them. The Indian government is not in a position to provide jobs to all those who may be forced to close their retail shops. Their hardships will mount. However, the government, as in the case of China, may gradually increase FDI in retail.

### **What makes India attractive for FDI?**

There are a number of reasons why foreign institutions opt to invest in India:

**Market size:** India has a consumer market of up to 300 million people. Its huge middle class population is a great market for foreign companies and products.

**Expectations of further liberalization of capital movement internationally:** India is already fully convertible on the current account and is moving towards full convertibility on the capital account. This makes it a very attractive destination for investment.

**Rationalization of economic policies:** The government has rationalized economic policies to make India an attractive destination for investment.

**Improvement in domestic financial institutions and banks:** The banking system in India has improved dramatically over the last few years, with FIs and banks looking to move towards universal banking.

**Good manufacturing and outsourcing hub:** India is a relatively cheaper place to conduct business than other countries. With the huge labour availability and access to markets in and around Asia, it becomes very attractive for foreign companies to set up their facilities in the country.

**Pros of FDI:** In the global economy today, we see many developing countries competing for foreign direct investment. FDI is said to be an important factor for spurring the development of a nation. Let's take a look at some of the advantages of foreign direct investment for a nation.

1. It will increase Employment to local people.
2. It will increase productivity due to competition with local shop.
3. New technology will be introduced in our country which will uplift our lifestyle.
4. China is the world largest destination of FDI which resulted fastest economic growth.

**Cons of FDI:** One of the measurements of economic development in a low income economy is the increase in the nation's level of capital stock. A developing nation may increase the amount of capital stock by incentivizing and encouraging capital inflows, and this is generally done through the attraction of FDI. It has been widely discussed and upheld that amongst various forms and modes of capital inflows, FDIs are favored, because of their long-term durability and commitment to a host country's economy. FDIs are less susceptible to short-term changes in market conditions, which ensure a certain level of continuity and stability in the money flow.

1. **Funding:** Starting a plan to phase-out priority lending.
2. **Financial sector:** promoting new entry for private Banks.
3. **Tariffs:** tariffs & fees systems are complex and vary at the state, central levels & by ministry.
4. **Import processes:** India didn't sign to the WTO (World Trade Organization) Government Procurement Agreement.
5. **Government procurement:** barriers in major services industries like insurance, banking, accounting, legal services, telecommunications, distribution services, postal and express delivery services.
6. **Export supports:** India's customs valuation policies do not reflect actual transaction values and raise the cost of exporting beyond realistic tariff rates.

**Conclusion:** On the basis of above research and discussion FDI has both positive and negative impact on India Economy. Government should promote FDI and in order to lower down its negative impact it should have redesigned framework for the local players. Government should encourage FDI on gradual basis depending on products from one area to other Product category wise clauses should be developed to allow FDI. India needs inflows to drive investment in infrastructure, a lack of which is often cited as restricting the country's economic growth. Investment is also needed to expand capacity and technology in sectors such as autos

and steel, as well as to offset a big current account deficit. In a nutshell, FDI should be encouraged with strict feasible and mutually beneficial regulations. “Better Investment Climate” Need of the Hour.

FDI in retailing is going to attract retail players by Indian Government, but India should welcome them with a talented pool of human resources by promoting institution imparting knowledge in retailing. Protection must be given to Indian small and medium retailers as retailing is their source of livelihood. The Government must properly discuss the pros and cons of allowing 51% FDI and have a law in place to control unfair competition. “In India, there is an opportunity to work all the way up to farmers in the back-end chain. Part of inflation is due to the fact that produces do not reach the end-consumer. Many of the foreign brands would come to India if FDI If multi brand retail is permitted which can be a blessing in disguise for the economy.

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