A STUDY ON FOREIGN DIRECT INVESTMENT IN INDIAN WITH REFERENCE TO RETAIL SECTOR

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ABSTRACT

FDI is a major source of external finance which means that countries with limited amounts of capital can receive finance beyond national borders from wealthier countries. According to the World Bank, FDI and small business growth are the two important elements in developing the private sector in developing economies and poverty alleviation.

Foreign direct investment (FDI) in India has played a significant role in the growth of the Indian economy. FDI in India has enabled India to achieve a certain degree of financial stability, growth and development. This money has allowed India to focus on the areas that needed a boost and economic concentration, and address the various problems that continue to challenge the country.

FDI is permitted from 26% to 100% based on the nature and importance of industry. Before economic reforms in India the economic growth was very slow. But after the new economic policy reforms India is experiencing the economic growth like a galloping horse.

India's retail sector is wearing new clothes and with a three-year compounded annual growth rate of 46.64 per cent, retail is the fastest growing sector in the Indian economy. Traditional markets are making way for new formats such as departmental stores, hypermarkets, supermarkets and specialty stores.

The central government has planned to allow FDI in Indian retail sector up to 51% and this decision is being opposed by people of various segments. This paper aims at studying the impact of FDI in Retail industry.

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INTRODUCTION:

FDI is a major source of external finance which means that countries with limited amounts of capital can receive finance beyond national borders from wealthier countries. According to the World Bank, FDI and small business growth are the two important elements in developing the private sector in developing economies and poverty alleviation.

Foreign direct investment (FDI) in India has played a significant role in the growth of the Indian economy. FDI in India has enabled India to achieve a certain degree of financial stability, growth and development. This money has allowed India to focus on the areas that needed a boost and economic concentration, and address the various problems that continue to challenge the country.

India has continually attracted FDI from the world's major investors. In 1998 and 1999, the Indian national government announced a number of reforms designed to encourage and promote a favorable business environment for investors.

INDIAN SCENARIO

Foreign Direct Investment (FDI) is permitted as under the following forms of investments.

1. Through financial collaborations.
2. Through joint ventures and technical collaborations.
3. Through capital markets via Euro issues.
4. Through private placements or preferential allotments.

Forbidden Territories:

FDI is not permitted in the following industrial sectors:

1. Arms and ammunition.
2. Atomic Energy.
3. Railway Transport.
4. Coal and lignite.
5. Mining of iron, manganese, chrome, gypsum, sulphur, gold, diamonds, copper, zinc.

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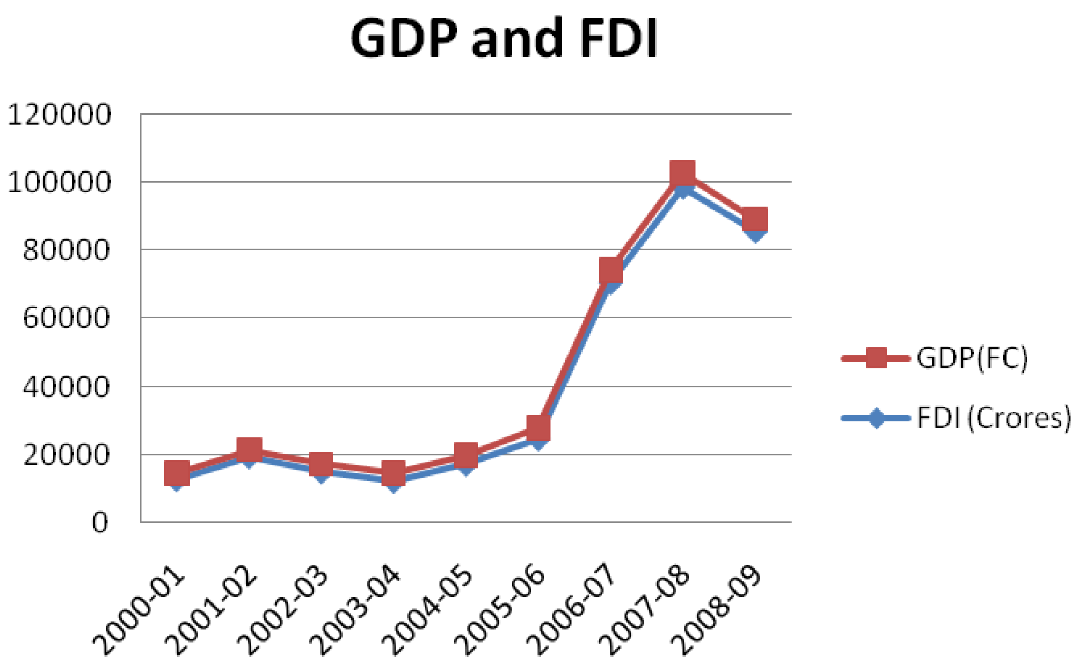
Table 4 FDI and GDP,

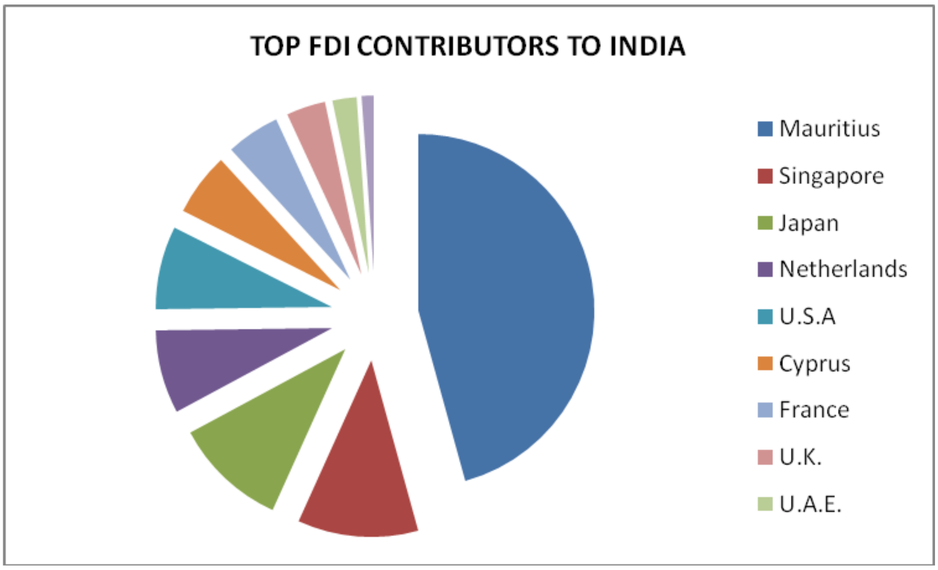
Year	FDI (Crores)	GDP(FC)
2000-01	12645	1925017
2001-02	19361	2097726
2002-03	14932	2261415
2003-04	12117	2538171
2004-05	17138	2877706
2005-06	24613	3275670
2006-07	70630	3790063
2007-08	98664	4303654
2008-09	85700	3635496



TOP FDI CONTRIBUTORS TO INDIA

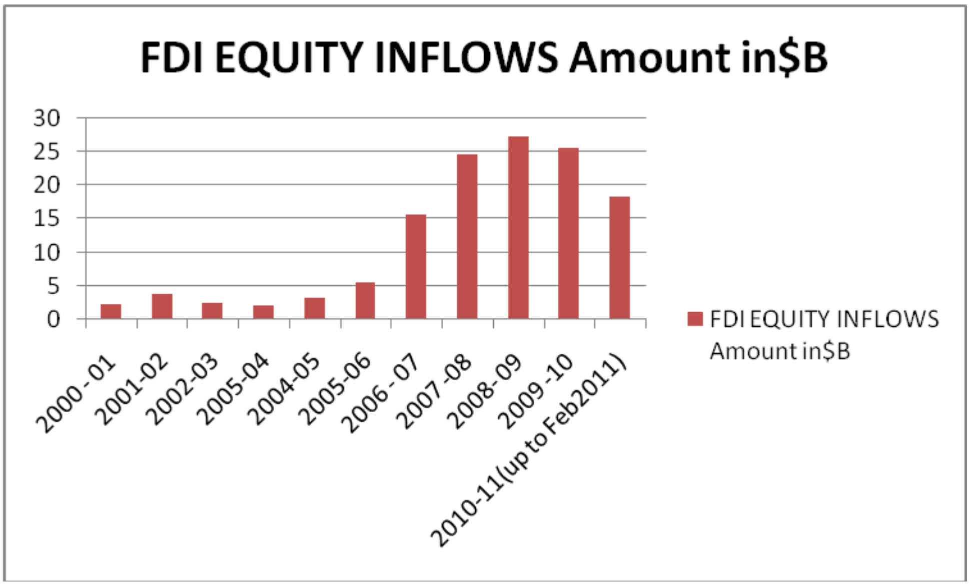
Rank	Country	2010-11 in $B
1	Mauritius	6.6
2	Singapore	1.6
3	Japan	1.5
4	Netherlands	1.1
5	U.S.A	1.1
6	Cyprus	0.83
7	France	0.71
8	U.K.	0.52
9	U.A.E.	0.32
10	Germany	0.16

Source: Ministry of commerce & Industry



FDI EQUITY INFLOWS

S. No.	Financial Years 2000-2011	Amount in$B
1	2000 - 01	2.33
2	2001-02	3.9
3	2002-03	2.57
4	2005-04	2.19
5	2004-05	3.25
6	2005-06	5.54
7	2006 - 07	15.58
S	2007 -08	24.57
9	2008- 09	27.32
10	2009 -10	25.6
11	2010-11(up to Feb2011)	18.35
Source: Ministry of commerce & Industry		



Country—wise FDI Inflows - Top 10 Countries
(From 2007-2010) (Amount Rupees in Crores)

Rauk	Country	2007-08 (April-March)	2008-09 (April-March)	2009-10 (April-March)	(for April '10)	Cumulative Inflows (April "00 to April 2010)	% to Total Inflows
1	Mauritius	44483	50794	49633	2528	213434	43
2	Singapore	12319	15727	11295	1933	47080	9
5	USA	4377	8002	9230	404	37593	7
4	UK	4690	3840	3094	265	26263	5
5	Netherlands	2780	3922	4283	312	20438	4
6	Japan	3336	1889	5670	1455	18350	4
7	Cyprus	3385	5983	7728	123	17900	4
8	Germany	2075	2750	2980	102	12571	3
9	France	583	2098	1437	184	7102	1
10	UAE	1039	1133	3017	31	7054	1
	Total FDI Inflows	98664	123025	123378	9854	526357	83%

Source *Government of India (GOD (2009). FDI Statistics, Ministry of Commerce & Industry, Department of Industrial Policy and Promotion*

India’s inflow of FDI is steadily increasing and the FDI for the year 2008-09 is about 7 times of the FDI of the year 2000-01. The GDP has a perfect positive correlation with FDI, this shows that FDI eventually helped in economic growth.

FDI IN RETAIL SECTOR:

Definition of Retail

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.

Retailing defines the direct interface between the manufacturers and the end users who are basically individual consumers. The retail business owners stock up all goods after purchasing it directly from the manufacturers and then sell it to individual customers keeping a profit margin for themselves. Of late the retailing industry in India has bloomed with much coveted success causing positive impact on the national economy. India has been considered the second most lucrative destinations of the world for retail business.

In India, retailing industry is segregated into two classes- organized retailing and unorganized retailing. Organised retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. Unorganised retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local *kirana* shops, owner manned general stores, *paan/beedi* shops, convenience stores, hand cart and pavement vendors, etc.

India's retail sector is wearing new clothes and with a three-vear compounded annual growth rate of 46.64 per cent, retail is the fastest growing sector in the Indian economy. Traditional markets are making way for new formats such as departmental stores, hypermarkets, supermarkets and specialty stores. Western-style malls have begun appearing in metros and second-rung cities alike, introducing the Indian consumer to an unparalleled shopping experience.

The Indian retail sector is highly fragmented with 97 per cent of its business being run by the unorganized retailers like the traditional family run stores and corner stores. The organized retail however is at a very nascent stage though attempts are being made to increase its proportion to 9-10 per cent by the year 2010 bringing in a huge opportunity for prospective new players. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10 per cent of India's GDP.

STATUS OF RETAIL SECTOR IN INDIA

An overview of Indian retail sector

- Highest shop density in the world
- Around 12 million shops around the country

- Just .9 million in the US catering to more than 13 times of the Indian retail market size
- Around 11 shops for every 1000 peoples

Rural retail market

1. Rural India has 720 million consumers across 627000 villages
2. 17 % of these villages account for 50% of the rural population and 60%of the rural wealth implying reaching out to almost 100000 plus villages to address even 50% of the rural opportunity

Why India?

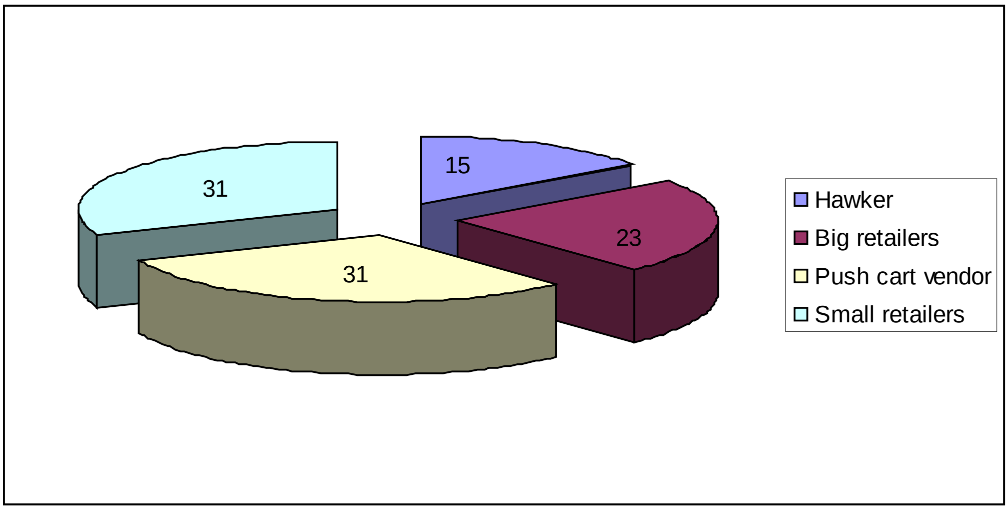
1. India GDP growth second highest in the world
2. India has worlds youngest population
3. 66% of Indians are under 35years about 50 % under 25 years by 2020 61% of the population will be under 35 years

Retail trade India and South East Asia

Country	**Organised**	**Unorganized**
India	***2***	***98***
China	20	80
South Korea	15	85
Indonesia	25	75
Philippines	35	65
Thailand	40	60
Malaysia	50	50

Basis of ownership

Hawker	15
Big retailers	23
Push cart vendor	31
Small retailers	31



Cons

1. It will lead to closure of tens of thousands of mom-and-pop shops across the country and endanger livelihood of 40 million people
2. It may bring down prices initially, but fuel inflation once multinational companies get a stronghold in the retail market
3. Farmers may be given remunerative prices initially, but eventually they will be at the mercy of big retailers
4. Small and medium enterprises will become victims of predatory pricing policies of multinational retailers
5. It will disintegrate established supply chains by encouraging monopolies of global retailers

Pros

1. It will cut intermediaries between farmers and the retailers, thereby helping them get more money for their produce
2. It will help in bringing down prices at retail level and calm inflation
3. Big retail chains will invest in supply chains which will reduce wastage, estimated at 40 percent in the case of fruits and vegetables

4. Small and medium enterprises will have a bigger market, along with better technology and branding
5. It will bring much-needed foreign investment into the country, along with technology and global best-practices
6. It will actually create employment than displace people engaged in small stores
7. It will induce better competition in the market, thus benefiting both producers and consumers

CONSLUSION

No doubt that India is a developing country, and may be a super power in the near future, but one thing we can not refuse that this is the country in which formers commit suicide because of indebtness, there are deaths of hunger. India has more number of people below poverty line they can not offer to multi brand retail shops. More over India has a traditional system of marketing and vendors, their role is inseparable in retailing and they can never be replaced.

Even if Indian government allows FDI in retail sector, they may capture a portion of market, and they can never occupy the entire market and they can never satisfy the varying needs of Indian consumers.

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