An analysis of Foreign Direct Investment in Indian Retail Sector

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INTRODUCTION

The Foreign Direct Investment 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 economy. FDI is also described as "investment into the business of a country by a company in another country". Mostly the investment is into production by either buying a company in the target country or by expanding operations of an existing business in that country". Such investments can take place for many reasons, including to take advantage of cheaper wages, special investment privileges (e.g. tax exemptions) offered by the country. For the introduction of FDI in India if the investment is made in equity shares , fully and mandatorily convertible preference shares and fully and mandatorily convertible debentures with the pricing being decided open as a figure or based on the formula that is decided openly. Any foreign investment into an instrument issued by an Indian company which: gives an opportunity to the investor to convert or not to convert it into equity or does not involve upfront pricing of the instruments a date would be reckoned as ECB and would have to fulfill with the ECB guidelines.The FDI policy provides that the price/ conversion formula of convertible capital instruments should be determined upfront at the time of issue of the instruments. The price at the time of conversion should not in any case be lower than the fair value worked out, at the time of issuance of such instruments, in accordance with the presentFEMAregulations.

India is the 3rd largest economy of the world in terms of purchasing power parity and thus looks attractive to the world for FDI. Even Government of India, has been trying hard to do

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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.

Some of the major economic sectors where India can allow FDI are as follows:

- Telecommunications
- Apparels
- Information Technology
- Pharma
- Auto parts
- Jewelry
- Chemicals

In last few years, certainly foreign investments have shown upward trends but the strict FDI policies have put hurdles in the growth in this sector. India is however set to become one of the major recipients of FDI in the Asia-Pacific region because of the economic reforms for increasing foreign investment and the deregulation of this important sector. India has technical expertise and skilled managers and a growing middle class market of more than 300 million and this represents an attractive market.

The sectors where FDI is not allowed in India are as follows

FDI is prohibited under the Government Route as well as the Automatic Route in the following sectors:

- Atomic Energy
- Lottery Business
- Gambling and Betting
- Business of Chit Fund
- Nidhi Company
- Agricultural (excluding Floriculture, Horticulture, Development of seeds, Animal Husbandry, Pisciculture and cultivation of vegetables, mushrooms, etc. under controlled conditions and services related to agro and allied sectors) and Plantations activities (other than Tea Plantations)

- Housing and Real Estate business (except development of townships, construction of residential/commercial premises, roads or bridges to the extent specified in notification
- Trading in Transferable Development Rights (TDRs).
- Manufacture of cigars , cheroots, cigarillos and cigarettes , of tobacco or of tobacco substitutes.

Advantages of FDI

- Improves forex position of the country;
- Employment generation and increase in production ;
- Help in capital formation by bringing fresh capital;
- Economy will get the benefit with capital inflows from global giants that will develop the front-end and backend infrastructure in different segments.
- Helps in transfer of new technologies, management skills, intellectual property
- The big companies with huge investment capacity will buy goods at lesser rates and pass on big discount to consumers.
- The consumer will get access to some of the major global brands. Entry of foreign brands would also improve the quality and variety of products, increase competition and expand manufacturing
- Helps in increasing exports
- The 51% FDI will benefit the consumers as they willhave wider choice at competitive prices
- Increases tax revenues
- FDI in single and multi-brand retail will pave the way forimproving supply chain infrastructure and logistics.

Disadvantages of FDI

- Domestic companies fear that they may lose their ownership to overseas company
- Small enterprises fear that they may not be able to compete with world class large companies and may ultimately be edged out of business;

- Large giants of the world try to monopolize and take over the highly profitable sectors;
- Kirana and retailers will may lose business in long run
- Such foreign companies invest more in machinery and intellectual property than in wages of the local people;
- Farmers will be exploited and will lose their fields and crops to foreign investors.
- Job in manufacturing industry will be lost soonbecause organized international retails marketers
- Purchaseinternationally and not from the domesticmarket.
- Work will be done by Indian and the profit will go to foreigners
- Government has less control over the functioning of such companies as they usually work as wholly owned subsidiary of an overseas company;
- FDI in multiband retail may result in job losses in manufacturing sector

Developments on FDI (all sectors including retail)

2011 – December: The Indian government removed the 51 percent cap on FDI into single-brand retail outlets and thus opened the market fully to foreign investors by permitting 100 percent foreign investment in this area.

2012 - September: The government approved the

- Allowed 51% foreign investment in multi-brand retail,
- Relaxed FDI norms for civil aviation and broadcasting sectors. – FDI cap in Broadcasting was raised to 74% from 49%;
- Allowed foreign investment in power exchanges

2012 – October: In the second round of economic reforms, the government cleared amendments to raise the FDI cap

- in the insurance sector from 26% to 49%;
- in the pension sector it approved a 26 percent FDI;
- Now, Indian Parliament will have to give its approval for the final shape,"

The Total Inflows of FDI in India

- For the FY 2012-13 (for the month of July, 2012) was US$ 1.47 billion.
- Amount of FDI equity inflows for the financial year 2012-13 (from April 2012 to July 2012) stood at US$ 5.90 billion.
- Cumulative amount of FDI (from April 2000 to July 2012) into India stood at US$ 176.76 billion

S. No	Financial Year (April – March)	Amount of FDI Inflows		%age growth over previous year (in terms of US $)
		In Rs, crores	In US$ million	
1	2000-01	10733	2463	-
2	2001-02	18654	4065	(+) 65 %
3	2002-03	12871	2705	(-) 33 %
4	2003-04	10064	2188	(-) 19 %
5	2004-05	14653	3219	(+) 47 %
6	2005-06	24584	5540	(+) 72 %
7	2006-07	56390	12492	(+)125 %
8	2007-08	98642	24575	(+) 97 %
9	2008-09 '*'	142829	31396	(+) 28 %
10	2009-10 #	123120	25834	(-) 18 %
11	2010-11 #	88520	19427	(-) 25 %
12	2011-12 # (April - January 2012)	122307	26192	-
CUMULATIVE TOTAL (from April 2000 to January 2012)		**723367**	**160096**	-

- including amount remitted through RBI"s-NRI Schemes (2000-2002).
- FEDAI (Foreign Exchange Dealers Association of India) conversion rate from rupees to US dollar

applied, on the basis of monthly average rate provided by RBI (DEAP), Mumbai.

Variation in equity inflows reported in above Table II-A & II-B for 2006-07, 2007-08, 2008-09, 2009-10 & 2010-11 is due to difference in reporting of inflows by RBI in their monthly report to DIPP & monthly RBI bulletin.

- # Figures for the years 2009-10, 2010-11 & 2011-12 are provisional subject to reconciliation with RBI.

  "An additional amount of US$ 4,035 million pertaining to the year 2008-09, since reported by RBI, has been included in FDI data base from February 2012.

CONCLUSION

By completely opening this sector, the government has strongly conveyed its readiness in retail sector reforms. The policy of allowing 100% FDI in single-brand retail was adopted to allow Indian consumers access to foreign brands. It shall benefit both the foreign retailer and the Indian partner – foreign players get local market knowledge, while Indian companies can access global best management practices, designs and technological knowhow. On the other hand, FDI in multi-brand retailing must be dealt cautiously as it has direct impact on a large portion of population. Foreign capital, if unchecked, may widen the gap between the rich and the poor. Apart from prices, the report states that smaller farmers come under severe pressure from supermarkets due to the latter's requirement for large volumes of each product, pushing farmers to grow single crops rather than the multiple produce they would usually grow to minimize risk.Beside that by allowing FDI in retail trade, India will significantly benefit in terms of quality standards since the inflow of FDI in retail sector is bound to pull up the quality standards and cost-competitiveness of Indian producers and marketers in all the segments. It will also help in integrating the modern Indian retail market with that of the global retail market The Indian Government, however, recommends that retail firms source a percentage of manufactured products from the small and medium domestic enterprises (DIPP Report, 2010). With a restriction of this sort, the opening up of the retail sector to FDI could therefore provide a boost to small-and medium

enterprises. The government of India must be careful about the apprehensions raised by the critics and adequate safeguards must be taken so that the positive effects may outweigh the negative ones and the traditional retailers coexist even after big foreign retailers enter the market.

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