Foreign Direct Investment: Past, Current & Outlook

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Abstract:- In the era of Globalization, liberalization and privatization, the economy as a whole is opening up significantly. Several nations across the world have allowed Foreign Direct Investment many years ago. Chinese government took a call to allow allowed foreign direct investment (FDI) in nineteen ninety two; Brazilian, Mexican, and Argentinean Governments in 1994, Thailand & Indonesia allowed in 1997 & 1998. India is not far behind in this journey. India has already increased fifty one percent foreign direct investment (FDI) in single brand retailing to hundred percent, in cash & carry, 100% FDI is allowed and 100% foreign direct investment allowed across leather product (includes Harness & Saddlery) export sector. Foreign direct investment (FDI) across multi brand retailing is been discussed for several years now. FDI in multi-brand retailing has its advantages and limitations. We cannot ignore a possible threat to domestic retailers from entry of global players. One needs to understand myths and realities of global player's entry into India and review the impact of organized retailing on un-organized sector. FDI's entry into Indian retail sector is inevitable. However with Government policies, it will be level playing field for Indian and International entities thereby ensuring that Indian entities do not suffer. The author believes that to enable Indian economy to integrate with global economy, with proper regulatory framework, foreign direct investment (FDI) should be allowed and encouraged.

Keywords*:-single-brand retail; multi-brand retail; economy; domestic retailer; global player; Indian Economy; Government policies, multi-national retailers.*

I. INTRODUCTION

Foreign direct investment is a foreign investment, here where overseas resources are invested into enterprises of the local market and does not include asset in stock. Private funds are brought in by foreign entities in the services / product portfolio. Overseas funds invested in local companies are generally monitored by investing overseas entities. Example is a British Enterprise buying a key stake in Indian firm. Return on Investment depends on performance of the venture. India with Billion plus population offers immense opportunities for the world. We must handle this sensitive issue and bring enormous advantages for the consumers, farmers and to all. Once telecom sector was thrown open and we have been seeing enormous improvement in telecom sector. We throw open automobile sector and we find quality products from different companies like Ford, Hyundai, Maruti Suzuki, Honda, Nissan, Tata and others. We throw open banking sector and we have been different foreign banks working in India and Indian banks bench marked in a very nice manner and giving tough competition to foreign banks. There was a marked improvement in the life styles of the people. Today, we see Chinese goods of poor quality to medium quality dumped in the market even without allowing FDI. For example more than half of electronic and electrical items, machine tools, building hardware, bathroom fittings and sanitary ware, lights and chandeliers sold in India are made in China. This can be eliminated by having proper investments in retail sector and the entire country gets benefited by having different products from different countries. The present paper is a field study with reference to FDI retail in India with a focus on present and future.

II. WHY FDI IN RETAIL FOR INDIAN SUBCONTINENT

Foreign direct investment across single brand and multi brand retailing improves logistics across food supply chain. It improves integrated cold chain infrastructure thereby eliminating wastage. A retail store absorbs a lot of investment to offer a variety of goods. It has to incur a lot of expenses like rental, salaries, lighting and air conditioning. If there is no proper sale, losses occur. Aditya Birla Group had shut " More" branded shops and laid off more than 150 staff and were in process of identifying loss making shops for closure.

III. PRESENT STATUS

Present policy of Indian Government specify a foreign direct investment up-to fifty one percent overseas equity in multi-brand retailing subject to providing sufficient protection for Indian retailers. On single-brand retail, hundred percent is allowed. A city with an population of more than 10 lakhs will be benefitting from this policy, it may be noted that as per census taken in 2011, out of 7395 cities across India, only 53 qualify for this policy. Also as per policy, an investment at a minimum level of USD 100 Mn is to be done by foreign entity, out of which 50% should be funded into backend infra like refrigeration / cold storage, warehousing, logistics, processing and packaging. The policy aims at reducing agricultural waste, remunerative prices to the farmers and reduces post harvest losses. To ensure speedy project clearances in energy and infrastructure sectors especially to address the regulatory permissions, and setting up of high powered committee was approved by our former PM, Shri. Manmohan Singh in 2012. There was huge influence of former Tata Group Chairman Mr. Ratan Tata on this decision, he had requested former Prime Minister of India for implementation of pending reforms, came hard on various Media personnel, Opposition parties, some ruling alliances for not supporting former PM in economic measures.

➢ *Foreign Direct Investment: Single-Brand Retail*

In the year 2005, India's retail market was USD 220 Bn, likely to grow to USD 700 Bn at the end of 2015, recording a CAGR of twelve percent, in retail sector; foreign direct investment will lead to inflow of technical know-how and subject matter expertise thereby enabling the growth of the sector. Employment for 01 crore people in 3 years time, is expected due to FDI's entry into India. Domestic player both small and large will not have any negative impact due to this move. Large overseas luxury / sophisticated players will bring investments which will help develop infrastructure, supply chain management into the retail sector. Improvement in efficiency of supply chain, reduction in wastages and consumer prices coming down will are expected from this move. In fact, Agriculture community of India has been showing lower efficiencies in manufacturing, India's productivity levels in Agriculture especially food is lowest globally and there lies huge opportunity to increase production/output through investments in latest farming techniques.

➢ *Foreign Direct Investment: Multi-Brand Retail*

Products sold under one brand are single-brand retailing, are also sold overseas. Key examples of single-brand retail are Bata, Woodlands, Prada, Tommy Hilfiger, Raymond, and Puma to name a few. Process of marketing / selling 02 & more similar, competing, substitute goods by same company under various brands is considered multi-brand retailing. Hypermarkets, Supermarkets, large Shopping malls are the few formats of multi-branding retailing. Key examples of multi-brand retail are Wal-Mart, TESCO, Lifestyle, Big Bazaar, Pantaloon etc.

S.No.	Country	FDI limits	Remarks
1	China	100%	First permitted up to 49%, Slowly progressed up to 100% and no restrictions
2	Thailand	100%	FDI has an adverse effect on local retailers
3	Russia	100%	Super market revolution
4	Indonesia	100%	Modern trends in retail business
5	Singapore	100%	Good growth

Table I. Multi-Branding Retailing in Selected countries

Foreign direct investment in cash & carry is allowed hundred percent. Fifty one percent is allowed in single-branding retail (2012).

Year	$ (in billion)
1970	10
1980	20
1990	26.7
1998	179
1999	208

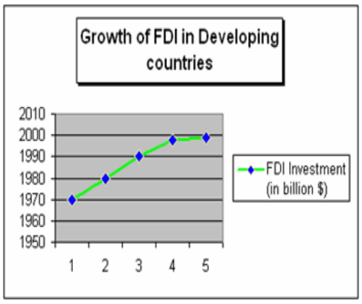

Table II Growth of Foreign Direct Investments (FDI) in Developing Countries

Many benefits can be derived by having FDI in retail sector.

IV. CREATION OF JOBS

It offers a vast scope for the creation of jobs in managerial and non managerial categories. More scope for steep increase in salaries. For instance store manager can earn a very good salary and commission from overseas owned cash & carry retailer. Nalli Sari retailer, Chennai based employs store managers who are designated as VP getting an annual package of around 20 lakhs including company owned car. Tommy Hilfiger, as an incentive for the achievers, is set to fly 120 team members to Sri Lanka as a pleasure trip. Metro shoes share its revenues with outlet managers. Pizza Hut awards titles such as restaurant general managers. Nest Retailer empowers the store managers to fix pricing also initiate marketing programs themselves. Mr. H. Singh, MD, Woodland (Footwear & Apparel Company, has over 350 own stores across India) states that every showroom is a profit center; manager of the store is owns the business and is accountable for profitability. Mr. Venkatesh, Head of Human Resources, Future Group (one of nation's largest retailer) states that "manager of the each showroom are Kartas", he adds that each Karta is accountable for profitability.

V. CRITICISM ABOUT MULTI – BRAND STORES

One who are opposing multi brand retailing in India feels that foreign direct investments into this segment poses threat to domestic / unorganized retailers / kirana shops, farming community & other small shopkeepers. They feel that this move will only help the transnational corporations and will have huge impact on supply of products and it's pricing. Their claim is that if FDI is allowed in this multi-brand retail sector, then unorganized domestic retailer, key job creators, will be financially hurt and they will lose their livelihood. As per a latest study, initially though the unorganized domestic retail sector may have negative impact but will the sector turn positive over a period of time. It may be noted that organized domestic retailer tends to generate jobs for both technical and non technical categories. To protect the smaller retail segment, Govt. of India can restrict permission only to showrooms that have more than 2000 square feet floor area. Govt. can also exercise control over multi-national retail companies through enforcement of regulations and also empower Competition Commission of India (CCI) to assess exploitation of such large multinational retailers leading roles.

VI. CONCLUSION

Foreign direct investment in single-brand and multi-brand retail has advantages and disadvantages. Experiences from countries like China, Russia, UK and some other countries reveal that foreign direct investment in single-brand and multi-brand retail is advantageous for the country in general and for the world in particular. FDI's entry into Indian retail sector is inevitable. Allowing 100% foreign direct investment allowed across leather product (includes Footwear, Bags, Harness & Saddlery) export sector is a key step. However with Government policies both Indian and Overseas entities can be on level playing field and that the domestic retailers do not suffer. Initially there will be a shake up in the organized and unorganized sector in the short term, and will adjust possibly in a better way for the welfare of the country.

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