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# FDI IMPACT UPON INDIA'S ECONOMIC DEVELOPMENT - WITH SPECIAL REFERENCE TO RETAIL SECTOR

*Dr. DHIRENDRA OJHA*
*ASST. PROFESSOR (COMMERCE)*
*AKS UNIVERSITY*
*SATNA*

## ABSTRACT
*The unorganised retail sector of India is one of the largest growing sector in the world with the only problem that the activities of this sector are not properly organised and are within the hands of few retailers. The foreign investors in India are not very much interested in investing in India because they are not very much sure about their future investment in India. The industrial policy of 1991 provided a new way to attract foreign investment in India. The research paper aims to study the impact of FDI in the economic development of India with special reference to the retail sector.*

## KEYWORDS
FDI, BOP, IMF, UNCTAD, liberalisation, portfolio investment.

## INTRODUCTION
The term of investment in which one or more companies or people from a particular nation put their capital into other nation according to their development need is FDI. In other words, according to IMF the total capital of 10% or more of a foreign company/people into a unit is considered as FDI. Direct investment into production or business in a country by an individual or company of another country, either by buying a company in the target country or by expanding operations of an existing business in that country is FDI. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds.

## REVIEW OF LITERATURE
**Singh Kr. Arun and Agarwal P.K., (2012) "Foreign direct investment: The big bang in Indian retail".** In this article they have studied the relation of foreign investment and Indian retail business. The study is based on different literatures, case studies and analysis of organised retail market. The author discusses the policy development for FDI in the two retail categories: single brand and multi brand. The author concludes that FDI in multi brand retail should be considered, better technology and employment. The paper also concludes that openness of FDI in India would help India to integrate into worldwide market

**Balasundaram Maniam and Amitiava Chatterjee (1998)** "The Determinants of US Foreign Investments in India: Implications and Policy Issues". They had studied on the determinants of foreign investment in India by U.S; in which the growth of US FDI in India attitude of Indian government which is changing as a result of liberalization programme.

## OBJECTIVES OF THE STUDY
1. For developing countries, it is essential in bridging the gap between saving and investment.
2. For the economic development of our country it is essential to know the requirement of foreign investment.
3. Identification of problems relating to less inflow of FDI and to make suitable suggestions to attract more FDI inflow to India.

## RESEARCH METHODOLOGY
This study is based on the objectives like how much amount of foreign investment is required economic development of India and to analysis the trend of FDI for economic development and how the status of economy has improved after economic reforms. The data for the requirement of study has been gathered from secondary sources like reports and publication of Govt. and RBI relating to foreign Investment, economic journals, books, magazines and internet etc.

## TYPES OF FDI IN INDIA
1. Horizontal FDI: It arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI.
2. Platform FDI: Foreign direct investment from a source country into a destination country for the purpose of exporting to a third country.
3. Vertical FDI: takes place when a firm through FDI moves upstream or downstream in different value chains i.e., when firms perform value-adding activities stage by stage in a vertical fashion in a host country.

## PROCESS OF FDI IN INDIA
Post liberalisation of India has not only opened its doors to foreign investors but also made investment easier for them by adopting following measures:
1. Easy foreign exchange control for trade.
2. Foreign investors can also transfer their funds to their home countries from their operation in India.
3. The regulations and tariff levels also came down in last two years.
4. While most Foreign Investments in India (up to 51 %) are allowed in most industries, foreign equity up to 100 % is encouraged in export-oriented units, depending on the merit of the proposal. In certain specified industries reserved for the small scale sector, foreign equity up to 24 % is being permitted now.
5. Indian companies got freedom to collect funds from overseas foreign market and can also invest in foreign companies in order to expand their business across world.

As the industry progresses, opportunities abound in India, which has the world's largest middle class population of over 300 million, is attracting foreign investors by assuring them good returns. The scope for foreign investment in India is unlimited.

## IMPACT OF FDI IN INDIAN ECONOMY TO THE RETAIL BUSINESS
1. Sufficient flow of capital towards development in various sectors as well as revenue generation.
2. Improvement in technology and skill which reduce the cost and increase the efficiency of working process.
3. Increase in job opportunities in many sectors, resulted as uplifting in their life style and acceptability.
4. Infrastructure and administrative reforms which create effectiveness and accountability of nation.
5. Social and economic growth due to awareness from various sources like schools, colleges, constitutional body and information technology etc. which is possible due to FDI.
6. The healthy competition will increase, so at the end customer will be in profit.
7. Highest FDI was recorded in the services, telecommunication, construction activities and computer hardware and software and hospitality sectors.
8. According to UNCTAD's world investment report India is the second lucrative place for FDI after China.
9. Few sectors are not permitted for FDI like atomic energy, railway, stock markets, real estate and mining of coal and metals.

10. Due to foreign companies entering into retail sector, new infrastructure will be built thereby bolstering the jagging real estate sector. In turn, banking sector will also grow as the funds needed to build infrastructure will be provided by banks.
11. It has been estimated according to government, that approximately ten million jobs will be created mostly in retail and real estate sectors.
12. In the retailing business, the intermediaries have dominated the interface between the manufacturers or producers and the consumers. Hence the farmers and manufacturers lose their actual share of profit margin, as the lion's share is eaten up by the middlemen.
13. Consumers will get variety of good quality products at low prices compared to market rates and will be able to choose from various international brands at one place.
14. This has been one of the common issues in the retailing chain in India for years, which has led to the process of an incompetent market mechanism.
15. FDI will assure operations in production cycle and distribution. Due to economies of operation, production facilities will be available at a cheaper rate and thus resulting in availability of variety products to the ultimate consumers at a reasonable and cheaper price.
16. FDI allows transfer of skills and technology from abroad and develops the infrastructure of the domestic country. Greater managerial talent will flow in from other countries. Domestic consumer will get the benefit of getting great variety and quality products at all price points.
17. FDI will render necessary capital for establishing organised retail chain stores. It is a long term investment because the physical capital in the domestic company is not easily liquidated.
18. FDI will create a competition among the global investors, which will ultimately guarantee better and lower prices, thereby benefiting people in all sections of the society. The market growth and expansion will increase. It will step-up retail employment. It will ensure better managerial techniques and success. Higher wages will be paid by the international companies. Urban consumers will be exposed to international lifestyles.
19. Restrictions on FDI are regarded as trade barriers as they traverse direct market access to foreign firms. Retail giants who are very keen in looking for entry into foreign markets look for other available alternatives. These restrictions on the global retailers regarding the inflow of FDI, leads them towards getting the market entry through franchises. Thus, countries which offer promising market potentialities for retail growth offer substantial growth in the franchising sector also.

**TABULAR REPRESENTATIONS OF THE KEY CHANGES PROPOSED UNDER THE FDI LIMITS ARE AS FOLLOWS:**

**TABLE 1**

| Sector/Activity | Before the proposal | | After the proposal | |
|---|---|---|---|---|
| | % of FDI /Equity | Entry Route | % of FDI / Equity | Entry Route |
| Defense Sector | 26% | Government Route | No Change | Higher limits of foreign investment in "stateof-the-art" manufacturing would be considered by the CCS |
| Insurance Sector | 26% | Automatic Route | 49% | Automatic Route |
| Telecom Services | 74% | Automatic up to 49% Government route beyond 49% and up to 74% | 100% | Automatic up to 49% Government route beyond 49% and up to 100% |
| Tea Plantation | 100% | Government Route | 100% | Automatic up to 49% Government route beyond 49% and up to 100% |
| Asset Reconstruction Company | 74% of paid-up capital of ARC (FDI+FII) | Government Route | 100% | Automatic up to 49% Government route beyond 49% and up to 100% |
| Petroleum & Natural Gas | 49% | Government Route | 49% | Automatic Route |
| Commodity Exchanges | 49% (FDI & FII) + [Investment by Registered FII under Portfolio Investment Scheme (PIS) will be limited to 23% and Investment under FDI Scheme limited to 26%] | Government Route (For FDI) | 49% | Automatic Route |

## CONCLUSION

In order to liberalize Foreign Investment in India and to attract more number of foreign Investors the Government attempts to maintain a practice to continuously review the Foreign Investment policy. The acceptance of the recommendations to increase the Foreign Investment Limits in the respective sectors will not only attract Foreign Investment in India but will also provide growth opportunities to Indian Companies who can collaborate with Foreign Companies to start business in various new sectors. The withdrawal of requirement of Government Approval for Investment in different sectors will also act as an incentive to initiate various business prospects and will expedite the launch of new projects.

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