Effect of FDI in Retail Sector in India

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FDI: FDI stands for foreign direct investment, which means allowing foreign companies to do business in the nation weather it should be retail industry or service industry or Parma industry etc. If FDI is between 51% to 100% then these companies will work as separate entity and if it is less than 51% then it is necessary to work with Indian company. FDI is the huge source of income in India which increases foreign currency reserves. FDI is shown in the Capital account of Balance of Payment, and it helps in maintaining the Balance of Payment. Foreign capital plays a constructive role in a country's economic development. And India as developing nation get more benefits from this FDI as they are the large source of foreign capital and foreign currency. Sometimes it happen that domestically available capital is inadequate or insufficient for the proper development of the nation in all the sectors. So at that time this foreign capital act as filling the gap between the domestic available supplies of savings, government revenue, foreign exchange and planned investment is necessary to achieve development targets. And this is very true reason that why developing countries allowed FDI in their nation. India ranks second among the major fastest developing nations in the world after China. Indian economy has diversified portfolio which encompasses agriculture, handicraft, manufacturing, textile and a multitude of services. Along with this industries in India are most attractive point for the flow of FDI as the companies can make huge profit from the business.

FDI differ substantially from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange. Entities making direct investments typically have a significant degree of influence and control over the company into which the investment is made. Open economies with skilled workforce and good growth prospects tend to attract larger amount of FDI than closed, highly regulated economies.

The investing company may makes its overseas investment in a number of ways- either by setting up a subsidiary or associate company in the foreign country, by acquiring shares of an overseas company, or through a merger or joint venture.

The accepted threshold for a foreign direct investment relationship, as defined by the OECD, is 10%. That is, the foreign investor must own at least 10% or more of the voting stock or ordinary shares of the investee company.

There are two types of FDI:

Greenfield Investment: A form of FDI where a parent company starts a new venture in a foreign country by constructing new factories and/or stores.

Mergers and Acquisition: It occurs when a transfer of existing assets from local firms takes Place.

Retail: Retail is selling of goods or services to end users as per there requirement and earn profit out of it. Basically retailers purchase products from manufacturer or wholesaler and then sell to final consumer or end user. Retailers are the part of this system which named supply chain. What retailer do is that they purchase the goods in large in quantities from manufacturer or wholesaler and then sell them in small quantities to individuals for profit. Retailing can be done by many ways i.e. by fixed locations like stores or market, door to door or by delivery. Shops may be located at residential street, street with few or no houses, or in shopping mall. In today's scenario a new concept of retailing is emerged that is electronic retailing which is also known as business to consumer (B2C) transaction or mail order. This retailing is very much popular in now days where no physical presence of retail shop is present and transactions are made electronically.

FDI in Retail: Government has allowed 100% FDI in retail sector. FDI is abbreviation of Foreign Direct Investment. FDI means allowing foreign companies to invest in the country in different sectors. FDI is the huge source of income in India. FDI helps in balancing in balance of payment and also helps in maintaining capital account. Government set different norms and conditions to foreign companies while investing in the country. Without fulfilling these norms and conditions no company can enter in to the country. Government allow these companies to enter in to the country because these companies come with huge capital and also helps in infrastructure development of the nation. FDI means allowing foreign companies to invest in any business or in production. An investment made a company or entity based in another country into company based in another country. Foreign direct investment differ substantially from interact investment which such as portfolio flows,

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wherein overseas institutions invest in equities listed on nation's stock exchange.

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1. 100% in single brand.
2. 51% in multi brand.
3. 100% in online brand.

Impact of FDI in India:

1. FDI affect the small businesses: - Since small businesses have long supply chain so the cost product is more at small retailers. Whereas big retail shops like wall mart, Tesco will purchase the product from manufacturer in large quantities which helps them to sell the product in low prices.
2. FDI create monopoly in the market: - Since big retail companies wall mart, Tesco come with huge money and have very low supply chain will destroy the retail market of India. Till wall mart has destroyed the retail market of 53 nations.
3. FDI effect the value: - FDI increases the value of currency as the demand of Rupee increases by foreign investors.

Effect of FDI in Indian Retail Market: Currently FDI is allowed to places/ cities having population more than 25 lacks. It is good symboling that one side country promoting FDI and another side protecting the Indian market. When foreign company will enter in the market, companies have to deposit certain money to the government as security and entry fees. This money will help country for the repayment of loan as the price of dollar goes high. Such freedom will create competition for Indian Retail Company like Big Bazaar, easy day, more mega, reliance fresh etc. FDI have ability to break the Indian market because they have huge money. The value of their dollar is much higher than our rupee. So such company will affect the Indian company.

FDI in online retail affect Indian market more. The youth of today is habitual of purchasing product online. Though the habit of buying product online not increased so much and it is a great time for foreign company to capture the market. India is the leading exporter of software in the world but it's not easy to capitalize the opportunity of online retail.

Benefits of FDI:

1. Helps in generating foreign currency: - As India is the leading importer in this global market, mainly of crude oil and Gold. And in this global market dollar is the universal currency in which trade is done. So with the help of FDI country collect huge amount of dollar which help in payment of import goods. .
2. Helps in maintain balance of payment: - since India importing so many items from international market it decreases the current account of BOP. Inflow of FDI is part of capital account and with help of this FDI (capital account) the balance of payment gets balanced.
3. Helps in generating employment: - The Company investing in India will also need labour to manufacture the product. And India is labour rich country so the company will get cheap labour which increase productivity and profit
4. Contribute in the GDP Growth rate: - As the employment will increase the living standard will also increase which affect the consumption level. This demand will be fulfilled from production which will increase employment and finally GDP will get increased.

Inflow of FDI in India:

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 # (Apr-Jan 2012)	122307	26192	-
Cumulative Total (from Apr 2000 to Jan 2012)		**723367**	**160096**	-

Finally I conclude the affect is that country gets many benefits from FDI but allowing too much FDI will affect the Capital of nation. As income from FDI helps in payment of all import items so it will be beneficiary to allow FDI. With the effect of FDI the country will get totally depend on this capital. And it is not good sign for the developing nation like India that country has maximum currency of foreign capital.

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