1.1 INTRODUCTION

The spectacular growth and development of Foreign Direct Investment in the past two decades is considered to be the most major development. The Governments of various developed and developing nations are striving hard in framing policies suitable for stimulating inward FDI as it is considered to be a major component for development of nations. The developing countries are the ones that are striving hard to attract more FDI as it is considered to be a vital tool for acquiring managerial skills and technological skills from the developed nations. FDI is given utmost importance as FDI is expected to provide Win – Win position for both the home and host countries. The host Countries want FDI to supplement foreign exchange and domestic savings by acquiring managerial skills and technological skills. The developing nations have accepted FDI as the only possible solution for various paucity of resources like capital, skills, finance, entrepreneurship, access to foreign markets and technological know-how.

1.2 AN OVERALL VIEW

FDI came into existence right from the time when East India Company of Britain was established in our Country. During this period foreign capital from the British came into India. Non availability of authentic and abundant data is considered to be the biggest hindrance in knowing the complete history of actual FDI inflow into our Country.

During the early stages the British companies made their investment mainly in those sectors that suited their own business as well as economic interest. The Japanese companies made their presence felt in India after the Second World War. But the dominance of British continued to exist in the Indian markets.
The policy makers started showing interest on framing policy for FDI only after Independence. They framed FDI policy keeping in mind various aspects like National interest, mobilising foreign exchange and acquired the required advanced technology. Later on various amendments and changes were carried out in the FDI policy in order to suit our economic development process.

1.3 Definition of FDI

According to UNCTAD, the definitions of FDI are contained in the Balance of Payments Manual: Fifth Edition (BPM5) (Washington, D.C., International Monetary Fund, 1993) and the Detailed Benchmark Definition of Foreign Direct Investment: Third Edition (BD3) (Paris, Organisation for Economic Co-operation and Development, 1996). According to the BPM5, FDI refers to an investment made to acquire lasting interest in enterprises operating outside of the economy of the investor. Further, in cases of FDI, the investor’s purpose is to gain an effective voice in the management of the enterprise. The foreign entity or group of associated entities that makes the investment is termed the "direct investor". The unincorporated or incorporated enterprise-a branch or subsidiary, respectively, in which direct investment is made, is referred to as a "direct investment enterprise". Some degree of equity ownership is almost always considered to be associated with an effective voice in the management of an enterprise; the BPM5 suggests a threshold of 10 per cent of equity ownership to qualify an investor as a foreign direct investor.

Generally speaking FDI refers to capital flows from abroad that invest in the production capacity of the economy and are usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depend on the performance of the projects financed by the investors. FDI also facilitates international trade and transfer of knowledge, skills and technology.
1.4 ADVANTAGES OF ALLOWING FDI

- The allowing of inflow of FDI provides huge benefits to the host country.
- FDI facilitates technological transfer.
- FDI inflow further helps in promoting competition, human capital development.
- FDI will provide huge profits to the government in the form of corporate tax.
- The inflow of FDI further more helps in improvement in storage facilities.
- FDI will lead to economic growth.
- FDI further helps in providing enormous employment opportunity.

1.5 DISADVANTAGES OF ALLOWING FDI

- Threat to unorganised local retailers.
- The established national brands may get replaced by the brands of the foreign firm.
- It will lead to inflationary condition in the economy.
- Small local firms will get victimised by the predatory pricing policies of the foreign giants.
- It will disintegrate the supply chain.
- It will eliminate all middlemen.
- The foreign firms will own the lands of poor farmers in the name of contract farming.

The advantages and disadvantages given above, clearly explains the fact that the inflow of FDI in retail sector has both the facets. This is the reason why there have been a number of protests from the local unorganised retailers and the trade unions on allowing inflow of FDI in retail sector.
1.6 INDUSTRIAL SECTORS IN WHICH FDI IS NOT ALLOWED

The following are the sectors in which FDI inflow is not permitted:

FIGURE: 1.1

FDI NOT PERMITTED INDUSTRIAL SECTORS

- Coal and lignite
- Atomic Energy
- Lottery Business
- Manufacture of cigars, cheroots, cigarillos and cigarettes
- Trading in Transferable Development Rights (TDRs)
- Housing and Real Estate business
- Gambling and Betting
- Business of Chit Fund
- Arms and ammunition
- Mining

The various sectors includes the sector of Trading in Transferable Development Rights (TDRs), Manufacture of cigars, cigarillos etc, lottery business, housing and real
estate, betting and gambling, chit fund business, mining of diamond, atomic energy, coal and lignite and arms & ammunitions.

1.7 DETERMINANTS OF FOREIGN DIRECT INVESTMENT

The determinants for attracting FDI usually differs from one nation to another as they usually differ in their characteristics, policies, opportunities etc. Some of the important determinants of FDI are as follows:

**FIGURE: 1.2**

**DETERMINANT OF FDI**

The above chart clearly depicts the various major determinants of Foreign Direct Investment.
1.7.1 Stable Policies

One of the most vital determinants of FDI is that the socio and economic policies must be stable. The nation tends to get negative effect when it keeps on changing its policies. Therefore in order to attract more FDI, there is a need for a stable policy.

1.7.2 Economic factors

Yet another important determinant of inflow of FDI is to have different economic factors. The various economic factors includes tax break, grants, removal of various restrictions and subsidies. In order to attract more funds, government provides a number of subsidies and exemptions.

1.7.3 Cheap labour

Another important determinant of attracting FDI is availability of cheap labour. The foreign investors tend to invest more in those countries in which there are abundant and cheap labour availability. A nation will have advantage if it has skilled and cheap labour force.

1.7.4 Basic infrastructure

The availability of basic infrastructure in a nation is considered to be a very positive sign for attracting more foreign funds. The foreign investors consider the availability of basic infrastructure for investing in another country.
1.7.5 Unexplored markets

Most of the foreign firms are much interested in investing in India mainly because of the availability of unexplored and untapped resources. These unutilized markets are the major targets of foreign investors.

1.7.6 Natural Resources Availability

The availability of various natural resources in a nation is considered to be a major determinant for attracting more inflow of foreign funds in to our economy. India is considered to be a favourable destination as it is filled with natural resources.

1.8 POLICY FRAMEWORK OF FDI IN INDIA

One of the major factors which drive the inflow of investment into a country is its policy regime. Apart from the underlying fundamentals, the policy regime is the major factor that plays a vital role in making a nation an able one to attract foreign investments. The current section undertakes the review of FDI policy framework of India. From the early 1990s the approach of India towards the foreign investment has undergone sea change.

Developing countries in the recent years have started concentrating more and more on liberalizing the various policies in order to attract more foreign funds. It includes relaxation in the rules of both market entry as well as foreign ownership. The changes in the policy are carried out solely to make our markets more attractive destination for foreign investors. Apart from various relaxations in policies the developing nations have started providing various incentives and improvements in amenities provided to them so that our nation stands distinct from other developing countries. Most of the people who oppose entry of foreign investors as they perceive it
to be risky as it might destabilize the economy. And those who are in support of FDI opine that FDI will for sure stabilize the economy and will act as a source of best managerial practices and advanced technology. Hence it is considered to be good for developing economies. But in reality it is never easy to draw any conclusion about the real outcome of FDI. The growth and development of FDI does depend on a number of factors.

1.8.1 Pre-liberalization Policy framework

Historically, while formulating the FDI policy India has adopted a very selective and careful approach in view of import substitution strategy for industrialization governance. India’s regulatory framework was duly consolidated with the enactment of Foreign Exchange Regulation Act (FERA) 1973, where in up to 40% of foreign equity holding in joint venture was allowed. Simultaneously various exemptions were also extended to those foreign companies who carried out export oriented business, high priority areas and high technology including allowing of equity holding of over 40%. The government of India after taking into consideration the success stories of other Asian countries, established Special economic zones (SEZ) and also designed a very liberal policy, thereby providing various incentives with a view to promote export in these special economic zones.

Announcements of various policy like the technology policy (1983) and Industrial policy (1980 & 1982) did provide a very liberal attitude towards the foreign investment. There were de-licensing of some rules, promotion of exports and modernization of industry with the help of liberalized import of goods, technology and capital were carried out in the reform. The changes in the reforms were duly supported by liberalization measures in trade in the forms of shifting large numbers of item from the import licensing to the Open General Licensing (OGL).
1.8.2 Post-Liberalization Policy framework

A key shift took place when India embarked upon the economic liberalization and reform program in the year 1991 with a major aim to raise its potential in growth and to integrate with world economy. The Industrial policy reform removed various restrictions that were imposed on the investment project and also the business expansion and on the other side allowed an increased access to foreign funding and technology.

There were a number of measures which were directed towards the liberalizing of foreign investment. In them a few are as follows:

- Providing automatic approval for various technology agreements in certain high priority industrial sectors.
- Introduction of a dual route for approval of FDI through automatic route by RBI and Government approval route through SIA/FIPB.
- Hike in foreign equity participation for existing company to 51% and liberalisation of use of foreign brand name.
- Permission to Overseas Corporate Bodies (OCBs) and Non- resident Indians (NRIs) for investing up to 100% in high priorities sectors.
- The protection of foreign investment through signing of Multilateral Investment Guarantee Agency (MIGA) convention.

In order to boost the above mentioned efforts, various enactments were carried out like the Foreign Exchange Management Act (FEMA) 1999. The Foreign Exchange Regulation Act (FERA), 1973 act was replaced with FEMA.
The Government of India in the year 1997, allowed FDI in cash and carry wholesale (100%) & FDI in single brand retailing (51%) in June 2006. Further amendment was brought about after a very long debate on December 2012 which indeed led to FDI in single brand retail (100%) and multiple brands retailing (51%).

The move of the government to allow FDI is considered by many as the right move as they consider it to be the right time to reap the benefits of the retail sector which has now grown into a promising venture.

1.9 REASONS FOR LOW FDI EQUITY INFLOW IN INDIA

The Foreign Direct Investment equity inflow into the country is considerably low when compared to other countries. The reasons for India being less attractive to foreign investment are because of a number of constraints and problems. A few of the major problems are listed below in the chart.

**FIGURE: 1.3**
1.9.1 Inadequate infrastructure

The lack of adequate and required infrastructure is considered as a major hurdle as far as less FDI inflow is concerned. The foreign investors consider this factor as a major bottleneck in investing in India. Amongst a number of problems in connection with infrastructure, the oldest and the biggest problem in infrastructure is supply of electricity.

1.9.2 Stringent labour laws

In India the large firms are usually not allowed to layoff or retrench any workers. And these firms need to get prior permission from the respective state government before closure of their unit. The firms cannot easily retrench the unnecessary workers, as they need to get permission from both state government and employees. Moreover the trade unions demand huge sums in the name of voluntary retirement scheme.

1.9.3 Corruption

One of the biggest problem which acts as a bottleneck for low inflow of FDI is the existence of corruption. The combination of various hurdles and problems discussed so far, the presence of corruption from top to the bottom have made the foreign investors to lose interest in investing.

1.9.4 State governments lack of authority

In India the power to make changes in reforms, liberalizing policies are solely vested with the central government and the state government will act accordingly. In Brazil, Russia and China the respective regional government remains the deciding and decision making authority. The central government will act and make changes in consultation with the regional government concerned.
1.9.5 Export processing zones having limited scale

Another major problem that makes our nation less attractive to foreign investment is basically because of our export processing zone being very limited in scale. When compared to China we have developed very less such economic zones.

1.9.6 High Rate of Corporate Taxes

In East Asia the corporate tax rate generally lies in the range 15% to 30%, whereas in India the rate of corporate tax is 48% for those foreign companies who have invested in India. Hence the levy of excessive corporate tax is a major hindrance for free flow of investment from foreign countries.

1.9.7 Political instability and Indecisive Government

During the past two decades there are reports of a number of anomalies on the part of the government and these are still acting as a hindrance in attracting more investment from foreign countries. The foreign investors are very cautious to make sure that their valuable investments are not at risk.

1.10 FDI IN DEVELOPED, DEVELOPING AND TRANSITION ECONOMIES:

Global Foreign Direct Investment flows raised 36% to estimated value of US $1.7 trillion in the year 2015. The important point to be considered is that this is the highest level ever since the financial and economic crisis of 2008 – 09.
The surge in Foreign Direct Investment targeting the various developed economies was considered to be a major determinant behind the vigorous global rebound. The flow of FDI was reported to be strong in the United States and European Union, although it was of a historical low level in the year 2014. This resulted in the change of FDI pattern by economic groupings which are thereby tilted in favour of developed nations, which accounts for almost 55% of global Foreign Direct Investment inflows which can be clearly understood from the above figure.

The Developing economies experienced their Foreign Direct Investment reach a newest high of almost US $ 741 billion, which is nearly 5% higher than what was it in the year 2014. Developing Asia remained the worlds’ largest Foreign Direct Investment region, which accounted for almost one third of the global FDI inflows.

The flow of FDI into transition economies persisted to fall by almost 54% as regional conflicts and tumbling prices of international commodities undercut
Foreign Direct Investment. The flow of FDI fell sharply in the two of the largest host countries, Kazakhstan and Russian Federation.

1.11 FDI INFLOWS IN TOP 10 HOST ECONOMIES

The developed economies clearly changed the exact pattern of Foreign Direct Investment by the economic grouping in its favour mainly because of the very sharp increase in FDI inflows. The inflow of their FDI resulted in more than almost half of the global inflow of FDI. However the developing Asia continued to be the largest host amongst various regions for Foreign Direct Investment inflows at the regional levels, surpassing North America and EU. The Developing economies remain to make up almost half of top ten host countries for the year, as indicted in the figure below.

**FIGURE: 1.5**

*Estimated FDI inflows: top 10 host economies, 2015*

(Billions of US dollars)

Source: ©UNCTAD.
Note: FDI estimations in this Trends Monitor are based primarily on quarterly FDI data derived from the (extended) directional principle, though there are some countries for which the asset/liability data are used for estimation.

The above table clearly depicts that India is ranked at no. 7 amongst the top ten host country’s attracting FDI inflow. The United States, after falling exceptionally to the third in the Year 2014 as indicated in the above figure, but in the year 2015 the United States vaulted back strongly into the first position amongst all the countries with an estimated US $ 384 billion inflows. On the other hand Hong Kong, China - for the first time ever reaches a record US $ 163 billion and thereby became the second largest FDI inflow recipient in whole world.

1.12 FDI INFLOWS INTO DEVELOPED COUNTRIES REACHED ITS SECOND HIGHEST LEVELS

The FDI inflows into the various developed countries reached second highest level in the year 2015, reaching US $ 936 billion as indicated in the UNCTAD’s estimate and thereby accounting for majority of increase in the global flows as illustrated in the figure below. On the other hand the flow of FDI into the transition economies fell by 54% in 2015 to an estimated US $ 22 billion.
FIGURE: 1.6

Regional contribution to FDI flow growth, 2014–2015

(Billions of US dollars)

Source: ©UNCTAD.

Note: Excluding Caribbean offshore financial centers. Percent changes are calculated for each region relative to 2014.

The FDI inflows into Africa saw a steep fall by 31% in the year 2015 at an estimate of US $ 38 billion. On the other hand Egypt experienced an upward trend in the year 2015 at an estimated investment of US $ 6.7 billion, as compared to the investment into Egypt in the year 2014 which accounted for just US $ 4.3 billion.
TABLE: 1.1

FDI INFLOWS BY REGION AND MAJOR ECONOMY (2014 – 2015)

| Region / economy          | 2014 | 2015<sup>a</sup> | Growth rate (%)
|---------------------------|------|------------------|------------------
| World                     | 1 245| 1 699            | 36.5             |
| Developed economies       | 493  | 936              | 89.9             |
| Europe Union              | 254  | 426              | 67.6             |
| North America             | 146  | 429              | 193.5            |
| Developing economies      | 703  | 741              | 5.3              |
| Africa                    | 55   | 38               | -31.4            |
| Latin America and the Caribbean | 170 | 151              | -11.2            |
| Developing Asia           | 475  | 548              | 15.5             |
| Transition economies      | 49   | 22               | -54.1            |

Source: UNCTAD. Preliminary estimates.

FDI inflow into Latin America and the Caribbean experienced a downfall in the year 2015 with a Growth rate of -11.2% with amounted to US $ 151 billion compared to the amount of US $ 170 billion in the year 2014. On the contrary Developing Asia experienced a positive Growth rate of 15.5 % which amounted to US $ 548 billion in the year 2015 as compared to US $ 475 in the year 2014.

1.13 SURGE IN THE CROSS-BORDER M&As

In the year 2015 the cross border M&A reached its highest level since the year 2007 as indicated by the figure below. MNEs took the advantage of exceptional liquidity condition in the global level as well as record cash position with a view to
boosting cost efficiency generation and revenue growth. The net sales increased to 61% which amounted to US $ 644 billion. The deal activity in the transportation sector and real estate increased in contrast to slow sales in financial services. The sale of asset relating to machinery, electrical components and non-metallic products increased sharply.

1.13.1 Weakness in the Capital expenditure of developing economies

In contrast to M&A as explained above, sales in the field of extractive sectors slid at a -51% as the plummeting oil price contributed to significant retreat in total value of deal in crude oil & natural gas activity (-68%).

**FIGURE: 1.7**

The value of cross-border M&A sales and of announced Greenfield investment
Projects, 2007–2015a
(Billions of US dollars)

(a) Cross-border M&As’

(b) Announced

Greenfield FDI projects

*Source: ©UNCTAD, based on cross-border M&A database for M&As, and information from the Financial Times Ltd, FDI Markets (www.fDImarkets.com) for greenfield projects.*

a Data for announced greenfield investment for 2015 are preliminary.

*Note: Excluding Caribbean offshore financial centres.*
The Greenfield project announcement, which is considered as the indicative of the MNEs’ indication of capital expenditure, remained constant registering a very little dynamism in the year 2015 at 0.9% increase which amounted to US $ 721 billion as compared to US $ 714 billion in the year 2014. The project announcement in the developing economies saw a sharp decline, particularly in the case of Africa at -19% and the Caribbean and Latin America at -23%.

1.14 THEORETICAL FRAMEWORK

The various theories related to Foreign Direct Investment can be classified under the following two heads- Traditional theory and Modern theory.

FIGURE: 1.8

TRADITIONAL THEORY OF FDI
1.14.1 Theory of Industrial Organisational Approach

Stephen Hymer (1960, 1968 & 1970) and C.P. Kindleberger (1969) developed this theory which deals with the inflow of investment in oligopolistic market condition. This theory mainly focuses on various means that are used by the TNCs to overcome various informational and operational deficiencies by mobilising unique trans-border capabilities and assets. According to the theory, the possession of various proprietary resource and unique capability like managerial skills, proprietary technology, differential product, better access to government and capital imposing market distortion helps TNCs to gain competitive advantage in host country and assist them to offset the various discomforts in the foreign country.

1.14.2 Theory of Transaction Cost Approach

R.H. Coase pioneered the theory of transaction cost approach and Williamson (1979) generalised the theory. Under this theory FDI is considered as the response of an organisation to the various imperfections occurring in the intermediate goods, capital market and knowledge faced by the TNCs. The theory of transaction cost approach asserts that the availability of external market to a TNC tends to fail in providing efficient environment conducive for a firm to make profits by using its technical know-how, production process and brand name. Therefore in order to achieve its objectives the firms usually tends to make use of various inflow of investment into the host country and produce an internal market.

1.14.3 Eclectic theory of International Production: The OLI Framework

John H Dunning (1973 and 1993) pioneered the electric paradigm (OLI) of international production theory. The theory asserts that the pattern and extent of
international productions at any given time period be determined by configuration of the three major set of forces as follows:

- The net competitive advantage which the firms of a nationality usually possesses over the advantages of another nationality in supplying to any particular set of markets in consideration.
- The perception of the various firms about the extent they consider it to be in their best interest in the internationalisation of their markets and thereby adding value with the use of these assets.
- The extent at which the firms to relocate these value-added activities outside their respective national boundary. The theory there by explains that the possession of ownership specific advantage (O) by the firm that they wish to exploit in the foreign location (L) which they can only do with the help of internationalisation (I).

**FIGURE: 1.9**

**MODERN THEORY OF FOREIGN DIRECT INVESTMENT**
The modern theory of Foreign Direct Investment may be classified into four major theories like the Network model or stage theory approach, Strategic alliance network approach, Linkage, Leverage and Learning (LLL) framework and the theory of Leapfrogging. All these four classifications are clearly laid out in the above figure.

1.14.4 Stage theory approach/ The Network Model

The Stage theory approach model clearly explains the various process of a firms’ internationalisation which is the result of the learning from gradual increase in the international involvement. The stage theory approach was developed by Johanson & Vahlne (1977 & 1990), Johanson & weidersheim – Paul (1975) and Johnson & Mattson (Network model) (1988) explains the international involvement as sequential learning processes based on increased experiential knowledge.

1.14.5 Strategic Alliance Network Approach

Johanson & Mattson (1988) developed the theory of Strategic Alliance Network Approach. The approach explains the internationalisation as a process of learning based on the increased experimental knowledge.

1.14.6 Linkage, Leverage and Learning: The LLL framework

John A Mathews (2002 & 2006) developed the theory of Linkage, Leverage and learning of firm internationalisation. The LLL framework explains the basic fact that the newcomer and latecomer MNEs do not depend on the prior possession of various resources for their international expansion but they tend to adopt the process of utilising the international expansion strategy for tapping of resources that may otherwise are unavailable.
The rapidly growing emergence of the late comer firms were explained by the LLL framework in terms of the prior linkage development in global economy from the firm leverages through the experiential learning thereby helping them to have a foothold in the interconnected global economy.

1.14.7 Leapfrogging Theory

The theory of leapfrogging explains the recursive and systematic behaviour that are used by the late comers in order to catch up with early movers’ competitive position while avoiding risk of proprietary diffusion in technology to rivals and technological obsolescence along with the added burden of providing education to the changing markets.

1.15 MAJOR MOTIVES OF FOREIGN DIRECT INVESTMENT

FDI can be viewed either in terms of crated assets (which comprises of professional or skilled workers) or natural assets which includes unskilled workers.

Another way of viewing FDI is either Horizontal which deals with investing in the same type of company or vertical which comprises of investing in retailers, distributors or suppliers. Some of the major motives of a firm for being engaged in FDI are as follows:

**TABLE: 1.2**

<table>
<thead>
<tr>
<th>FIRMS MOTIVE IN ALLOWING FDI</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource seeking</td>
<td>Location specific</td>
</tr>
<tr>
<td>Efficiency seeking</td>
<td>Choosing amongst vertical FDI</td>
</tr>
<tr>
<td>Market seeking</td>
<td>Market need response</td>
</tr>
<tr>
<td>Strategic asset seeking</td>
<td>Created assets</td>
</tr>
<tr>
<td>Trade or import substituting</td>
<td>Direct trade</td>
</tr>
</tbody>
</table>
1.15.1 Entry modes for FDI

The act of choosing the entry mode of FDI is considered as a major strategic decision by foreign investors. The major driving factor in making such strategic decision usually depends on the interest of investors in seeking markets, efficiency or the strategic assets ownership and resources in the host countries.

FIGURE: 1.10

FOREIGN DIRECT INVESTMENT ENTRY MODES

Greenfield investment
Cross-border merger
Cross-border acquisition
Brownfield investment
Joint Stock Companies
Contractual Joint Ventures
Equity Joint Ventures
Wholly Owned Enterprises


Usually the major motive behind selection of entry mode is profit. Basically, Foreign Direct Investment can be joint ventures or wholly owned ventures. The inflow of FDI can take place in the following modes:
FDI has become a major economic drive of Globalisation. FDI in retail is perceived by many as one which may destroy the whole of unorganized retail sector if allowed to operate. Though FDI is a welcome move for all other sectors but not FDI retail. Several studies indicated that allowing FDI in retail will affect the local markets. FDI in retail is opposed by the leaders and members of retailers’ union as well as by the various political parties. It has been witnessed that allowing FDI in retail will pave way for bribery and corruption in developed nations. In India majority of the retail sector is unorganized. Many are of the opinion that FDI in retail will surely lead to employment displacements. As crores of people are employed in unorganized retail sector alone, allowing of FDI is perceived to be a great threat. In this context, it is very imperative to carry out a study on the perception of retailers and customers on inflow of FDI in retail sector and the current research work has greater relevance in formulating FDI policy in this regard. The traditional grocery retail market is the largest provider to the over-all grocery retailing in our country. But apart from that, it is considered to be the major employment provider which accounts for 10 % of overall employment in our country. This is therefore a major concern for our Government in deciding over allowing of inflow of FDI into India.

The Indian economy is considered to be a developing economy with a very lesser level of development than desired. Due to scarcity of infrastructure resources in our country, there is a direct warning from big giants like Tesco and Wal-Mart, which will force our independent stores to put shutters down, which will indeed directly lead to massive job losses, as their technology is very high and fully automated as such it needs very fewer men to operate. This will for sure lead to enormous job losses. And
since our retail sector is in a situation where it cannot employ staffs on contract basis, it is considered as a major threat.

1.17 NEED FOR THE STUDY

Foreign Direct Investment has received attention of one and all related to academics in respect of its role and implication in our country. A number of studies have been carried out on FDI in general- regarding its trends, patterns, impact on growth and impact on development. There are a few studies carried out on inflow of FDI for different sectors like services, telecommunication, pharmaceutical, capital goods, infrastructure, information technology and fast moving consumer goods (FMCGs). In this regard comparative studies among different regions are also been done. However, there are very limited organised studies which have been carried out on retail industry. But compared to various studies carried out so far, there has not been even a single study that has dealt with the perspective of both ends, namely the retailers as well as the customers. Moreover, the few studies which were carried out mainly focussed on secondary data sources alone.

The retail industry has undergone a tremendous change over the past few decades. Sky level changes have taken place not only in retail sector alone but also huge changes are being experienced in the change in perception and attitude towards the sector, which largely can be attributed to the inflow of FDI in to the sector. Apart from all these factors, there has been a huge opposition and cry about the inflow of FDI in the retail sector by various trade unions and stakeholders. Hence this study is taken up by the researcher in order to analyse the actual perception of both the retailer’s and customers about the inflow of FDI in to the retail sector. The study further aims to analyse the FDI policy of the Government in retail sector and analyse its impact on retail sector.
1.18 OBJECTIVES OF THE STUDY

The objectives of the study have been enumerated as follows:

1. To study Foreign Direct Investment policy of Government in Indian retail.
2. To study the impact of allowing FDI in retail.
3. To analyse the perception of retailers in Chennai on impact of FDI in retail sector.
4. To analyse the perception of customers in Chennai on the FDI retail.
5. To offer suitable suggestions.

1.19 HYPOTHESES

1. There is no significant relationship between Retailer’s perceptions on Impact of FDI on Retail sector in Chennai.
2. There is no significant relationship between customer’s perceptions on Impact of FDI on Retail sector in Chennai.
3. There is no significant difference between the mean response given by the retailers towards Resource utilization and the average score.
4. There is no significant difference between the mean response given by the retailers towards Effectiveness and the average score.
5. There is no significant difference between the mean response given by the retailers towards Profit share and the average score.
6. There is no significant difference between the mean response given by the retailers towards Employment opportunities and the average score.
7. There is no significant difference between the mean response given by the customers towards Customer preferences and the average score.
8. There is no significant difference between the mean response given by the customers towards Conveniences and the average score.

9. There is no significant difference between the mean response given by the customers towards Economic developments and the average score.

10. There is no significant difference between the mean response given by the customers towards Prospects and the average score.

1.20 SCOPE OF THE STUDY

The main aim of the study is to analyse the perception of retailers and customers on Inflow of FDI in retail sector. Since the unorganized market represents the major income of our nation, the Global firms are very much interested in investing in our market. The inflow of FDI is considered to be the move of the century. FDI is expected to provide ample advantages for our nation like economic growth, employment opportunity, technology diffusion etc. Various countries across the Globe have started considering India as the most attractive and a desired destination for FDI. And therefore is being considered as the world’s most lucrative destination for retailing. There are linkages as well as relationship between important constraints like rise in per capita income, economic development, proliferation of branded products, growing consumerism and retail modernization. With the high economic growth, there is increase in per capita income of our country which in turn leads to changes in the consumption pattern. With the tenacity of Globalisation and liberalization a number of international brands enter our domestic market.
1.21 METHODOLOGY

The primary data was collected from the respondents comprising of retailers and customers. The secondary sources, ‘descriptive research’ is considered to be most appropriate for the present study. Hence the study is considered as both analytical and descriptive. The questionnaire and research problem have been formulated accordingly.

1.22 Primary Data

The study has been carried out using both primary and secondary data. The data were collected in accordance to fulfill the objectives of the study. The primary data were gathered by using well designed questionnaire and Personal interview method. Two different questionnaires were administered, one for retailers and the other for customers.

The researcher carried out an in-depth interview with the President of Tamil Nadu trade union Mr. A.M. Vikramaraja. Under this interview the researcher asked a series of questions related to impact of FDI on retail sector, various issues related to allowing FDI, why retailers and trade unions are opposing entry of FDI in retail sector in the state of Tamil Nadu and so on. The whole of the interview was completely video-graphed.

1.23 Secondary Data

The secondary data were collected from World Investment report, Reserve bank of India bulletins, Asian development outlook, books, research articles, magazines and periodicals, Government Official Websites etc. The researcher further visited various libraries for gathering secondary data.
1.24 Pre-test

The first questionnaire meant for the retailers was pre – tested with 30 retailers. The second questionnaire was pre – tested with 40 customers. After pre – testing, necessary modifications in the questionnaire have been carried out.

1.25 RELIABILITY AND VALIDITY

1.25.1 Reliability

Reliability of an instrument refers to the degree of consistency between multiple measurements of variables. It is extent to which an experiment tests or any measuring procedures yield, the same result on repeated attempts. Reliability was estimated through internal consistency method which is applied to measure the consistency among the variables in a summated scale. In the present study, the Cronbach’s Alpha co-efficient of reliability was found based on primary data of the present study and the details are as follows:

Table ----1.3

<table>
<thead>
<tr>
<th>No.</th>
<th>Relator’s perception</th>
<th>No. of items</th>
<th>Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. Innovation</td>
<td>4</td>
<td>0.82</td>
</tr>
<tr>
<td></td>
<td>b. Technology and Infrastructure</td>
<td>4</td>
<td>0.83</td>
</tr>
<tr>
<td></td>
<td>c. Market share</td>
<td>4</td>
<td>0.87</td>
</tr>
<tr>
<td></td>
<td>d. Government policy</td>
<td>7</td>
<td>0.82</td>
</tr>
<tr>
<td></td>
<td>e. Resource utilization</td>
<td>3</td>
<td>0.83</td>
</tr>
<tr>
<td></td>
<td>f. Drawbacks</td>
<td>7</td>
<td>0.81</td>
</tr>
</tbody>
</table>
1.25.2 Validity

Both Face and Content validities were established in the study. The face validity was done by the investigator and the content validity was established by the experts in the field of investigation. Face validity, it appears to measure whatever the author had in mind, namely, what he thought he was measuring. The rationale behind content validity is that to examine the extent to which a measuring instrument provides adequate coverage of the topic under study.
1.26 SAMPLING DESIGN

1.26.1 Sample size

Number of Customers selected: 494        Number of Retailers selected: 462

1.26.2 Sample Size determination (Retailers)

The sample size for the survey is determined by applying the following formula:

Sample size \( n = \left( \frac{ZS}{E} \right)^2 \)

Where

\( Z = 1.96 \) (Standardized value corresponding to 95% confidence interval)

\( S = \) Sample standard deviation from pilot study = 0.59

\( E = \) Acceptable error = 0.05 (5%)

\[ \text{Sample size} = \left( \frac{1.96 \times 0.59}{0.05} \right)^2 \]

\[ = (1.96 \times 0.59 / 0.05)^2 \]

\[ = 534.9 \]

\[ \sim 535 \]

Well structured questionnaires were circulated to 535 retailers. 478 retailers have returned the questionnaire after filling it; however, 16 questionnaires were rejected due to inadequate data. Hence 462 retailers are chosen for the study.
1.26.3 Sample Size determination (Customers)

The sample size for the survey is determined by applying the following formula:

\[
\text{Sample size} \quad n = \left(\frac{ZS}{E}\right)^2
\]

Where

\[Z = 1.96 \quad \text{(Standardized value corresponding to 95% confidence interval)}\]
\[S = \text{Sample standard deviation from pilot study} = 0.61\]
\[E = \text{Acceptable error} = 0.05 \quad \text{(5%)}\]

\[
\text{Sample size} \quad (n) = \left(\frac{ZS}{E}\right)^2 = \left(\frac{1.96 \times 0.61}{0.05}\right)^2 = 571.78 \approx 572
\]

Well structured questionnaires were circulated to 572 customers. 512 customers have returned the questionnaire after filling it; however, 18 questionnaires were rejected due to inadequate data. Hence, 494 customers were selected for the study.

1.27 Period of Study

Based on the availability of data, the period of study has been confined from 05/11/2012 - 04/11/2015. Most of the data pertaining to FDI in retail have been taken since 2000. But the general information of FDI for the last ten years data have been explored.
1.28 Statistical tools used

- Percentage analysis
- One-sample t-test
- Independent samples t-test
- One way ANOVA
- Exploratory Factor analysis
- Structural equation modeling

1.29 Statistical package used

The validity, reliability and analysis of the data in this study were analysed using Statistical package for social sciences (SPSS v 21.0). Analysis of Moment Structure (SPSS AMOS v 21.0) was used to perform structural equation modeling.

1.30 LIMITATIONS OF THE STUDY

The present study was restricted to Chennai city. Chennai is the capital city of the Tamil Nadu. Chennai is the fourth largest city in India and also the sixth most populated region in India. Chennai is considered as the 31st largest city in the entire world.

1.31 SCHEME OF RESEARCH REPORT

Chapter I deals with Introduction to FDI, Statement of the Problem, Significance of FDI, Objectives of the Study, Scope of the Study, Hypotheses, Methodology, Collection of Data, Sampling Technique, Statistical Tools employed, Limitations of the Study and Scheme of Research Report.
Chapter II entitled “Review of Literature” summarises the earlier research studies carried out in abroad and India.

Chapter III presents an overview of FDI in Retail in India, Tamil Nadu and in Chennai.

Chapter IV analyses and interprets the data on perception of retailers and customers on impact of FDI in retail sectors

Chapter V summarises the findings of the study, gives suggestions and conclusion regarding inflow of FDI in retail sector.