CHAPTER 1 INTRODUCTION OF FDI

Foreign Direct Investment (FDI) is a process which enables the residents of one country to directly invest their funds in another country and acquire ownership of assets and exercise control over the investment in terms of production, management, distribution, effective decision making, employment etc. “FDI is an international financial flow with the intension of controlling or participating in the management of an enterprise in a foreign country.” Foreign investment is a means of making foreign resources available to a developing 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.

The entry of Foreign Direct Investment (FDI) in the retail sector seems to have become the next frontier for conquest by the pro-MNC forces of liberalization. A former director of the giant UK retailer TESCO has said, "Indian retail business should not be fooled by partnership offers by global retail giants because they want 100 per cent control and eventual ownership". He also urged the government to retain strict FDI regulations, (for) global retail giants are very smart and clever to tackle local cultural and political obstacles. Of late, the retail industry in India has often been hailed as one of the sunrise sectors in the economy. AT Kearney has recognised India as the 'second most attractive retail destination' globally. With a contribution of 14 percent to the national GDP and employing 7 percent of the total workforce in the country, the retail industry is definitely touted as one of the pillars of the Indian economy. With huge growth potential, Indian retail industry has been touted as one of the sunrise sectors. However, in spite of the recent advancements in retailing and its huge contribution to the economy, retailing is still among the least evolved sectors and the growth of organised retailing is immensely slower compared to the rest of the world. Food retail trade accounts for 63 per cent of total retail sales in the economy and thus, is a very large segment of the total economic activity of India. Enhancing the efficiency and improving the food retail sales would have a cascading effect on employment and economic activity in the rural areas for the marginalised workers. Even without any significant involvement of FDI, the corporate owned sector in
retailing is expanding ferociously at a high rate. The question that is significant right now is that as there is no dearth of indigenous capital, why is FDI in retail needed at the first place? Secondly, how the influx of FDI in retail in the country going to affect various stakeholders? Undoubtedly, currently there exists a dismal situation of the retail sector due to various reasons explained in this research. Also the absence of an FDI encouraging policy in the Indian retail sector shuns away any hope of restructuring and fostering this sector, despite the on-going wave of incessant liberalization and globalization. On this contextual basis, this research attempts to analyse the concrete strategic issues concerning the influx of FDI in the Indian retail industry. Moreover, with the recent move of the government to allow FDI in the multi-brand retailing sector, this research analyses the effects of these changes on farmers, committees, mom & pop stores and agri-food sector. The purpose of the research is to find out whether FDI in retail would enable India Inc. to efficiently integrate its economy with that of the global economy.

Traditionally, most of the Indian households have enjoyed the convenience of calling up the grocery "kirana" store, which has advantages of familiarity with their brand preferences, flexibility in returning and exchanging goods and also offers credit. However in most cities today, mall based shopping formats are gaining popularity but still the price-sensitive Indian shopper prefers Big box stores such as Big Bazaar specifically for the steep discounts and bulk prices. Most of the shoppers preferred the convenience and access offered by the local grocery store and hence, retail chains such as Reliance Fresh, Subhiksha and More have closed down their operations in certain locations. These retail giants will have to focus on various operations while reaching out to the Indian consumer. Firstly, they have to effectively build their expertise with cold storage technologies to attract customers with fresh and exotic vegetables and organic produce. Secondly, they need to create a range of inspirational global foods and household brands and thus create access for the consumers. Thirdly, they have to ensure interruption free supplies of essential raw materials by supporting domestic farmers. In India, FDI in cash and carry (wholesale) with 100% ownership was allowed in 1997 under the Government approval route. Later on in 2006, it was brought under the automatic route. Simultaneously, 51% investment in a single brand retail outlet was also permitted. But till 2013, FDI in Multi-Brand retailing was prohibited in India.
As per the experiences of the above-mentioned Indian Mega retailers, foreign giants will have to focus on engaging shoppers’ and farmers interest and ultimately combine these benefits with the advantages that local "kirana" stores have always offered – ‘familiarity, convenience and personalised shopping experiences’.

**AN OVERALL VIEW OF FDI**

Most Countries of the World which embarked on the road to economic development had to depend on foreign capital to some extent. But until the early 1990s India’s approach towards foreign capital as an instrument of growth and development in an overall sense was rigid, restrictive and selective. Things, however, changed with the Industrial Policy 1991. Coming on the heels of the macro-economic and balance of payment crisis of late 1980s, it ushered in a paradigm shift in the Indian economy and over bent to cajole foreign capital to come to India. The beginning made by the Industrial Policy 1991 in the direction of inviting foreign capital has increasingly been gaining momentum with new sectors being made eligible, with almost each subsequent year, for foreign capital.

The most important channel through which foreign capital flows into the country is Foreign Direct Investment (FDI). FDI as defined in Dictionary of Economics (Graham Bannock et.al) is “investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new (Greenfield) site. International Monetary Organization (IMF) and Organization for Economic Cooperation and Development (OECD) define FDI as a category of cross border investment made by a resident in one economy (the direct investor) with the objective of establishing a ‘lasting interest’ in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. The motive of the direct investor is a strategic long term relationship with the direct investment enterprise to ensure significant degree of influence in the management of the direct investment enterprise. Besides, International Bank for Reconstruction and Development (IBRD) and United Nations Conference on Trade and Development (UNCTAD) also provide definition of Foreign Direct Investment. To put in simple words, FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. It is preferred over other source of foreign
chapter 1 introduction of FDI

capital because it is non-volatile, non-debt creating and results in economic development, modernization and employment generation in the economy.

Foreign Direct Investment under the Industrial Policy 1991 and thereafter under different Foreign Trade Policies is being allowed in different sectors of the economy in different proportion under either the Government route or Automatic Route. In Retailing, presently 51 per cent FDI is allowed in single brand retail through the Government Approval route while 100 per cent FDI is allowed in the cash-and-carry (wholesale) formats under the Automatic route. Under the Government Approval route, proposal for FDI in ‘Single Brand Product Retailing’ are received in the Department of Industrial Policy and Promotion, Ministry of Commerce & Industry. Automatic route dispenses with the need of multiple approvals from Government and/or regulatory agencies (Government of India or the RBI). Investors are required only to notify the concerned Regional offices of RBI within 30 days of receipt of inward remittances and file required documents with that office within 30 days of the issue of shares to foreign investors.

The legal regimes that controls FDI in India and to that extent FDI in retailing includes Press Notes by Department of Industrial Policy and Promotion, Foreign Exchange Management Act 1999, Guidelines of Reserve Bank of India(RBI) and Security and Exchange Board of India, besides, of course, the Constitution of India.

India’s large and ever growing population coupled with a paucity of profitable economic opportunities make “labor intensive” activities like Agriculture and Retailing a major source of subsistence for the teeming millions especially the poor unskilled labor, superfluous labor and the educated unemployed. Therefore, any change that tend to disturb the existing configuration of these two sectors have a bearing on the lives of millions of these people and raises sharp public outcry and to that extent FDI in Agriculture and Retailing has always been a contentious issue. Of late, the Government of India has expressed its desire to bring the Multi-Brand retailing within the ambit of FDI, and in the process has put in train a debate on its possible outcome. This short paper proposes to examine the conflicting view points of this debate so as to arrive at a balanced conclusion.
CHAPTER 1 INTRODUCTION OF FDI

Retailing in India as also elsewhere in the world is divided into organized and unorganized retailing. Organized retailing refers to trade activities undertaken by the licensed retailers i.e., those who are registered for sales tax, income tax etc. These include the corporate backed hypermarket, retail chains and also the privately owned large retail business. Unorganized retailing, on the other hand, refers to traditional format of low cost retailing, for example the corner store (kirana i.e. grocery shops), owner manned general stores, Cigarette shops, convenience store, hand cart, pavement vendor etc. Unorganized retailing is the most prolific and visible form of retailing in India while the organized retailing constitutes only a very small percentage (3-4%). The reasons as to why Indian retailing is so fragmented or unorganized in nature lies in her entrenched poverty and the fact that a large number of educated unemployed and superfluous labor takes refuge in retailing in the face of joblessness and glaring poverty. Retailing in unorganized sector is thus not a profit oriented vocation but a mere source of livelihood. Naturally, the capital investment is very low and the infrastructure is rudimentary. It is estimated that less than 4% of Indian retailers have shops larger than 500 square feet. Given this rickety state of Indian unorganized retailing, there are serious apprehensions that the flow of organized foreign capital with its associated baggage of humungous infrastructure, bulging financial power professional managerial staffs etc, would sound the death knell for the Indian retailing industry. As against most Indian retailers’ less than 500 square feet premises, the average size of a store of Wall-mart (American Retailing Giant) is 85000 square feet and has an average annual turnover of $51 million as opposed to an average Indian retailer’s paltry turnover of Rs.186, 000. Further, it is feared that the international retailing giants will resort to predatory pricing to acquire monopolies. These retailing giants with their sprawling business cutting across different continents and deep pockets will be able to sustain loss till their competitors are wiped out.

As has been mentioned earlier retailing “disguises” the abysmal nature of unemployment in the country. Indian agriculture has long been a source of livelihood for the teeming millions of the country (provides employment to more than 50% of India’s labor force) so much so that it is massively over-crowded now. Besides, during the lean season even the productive farmer find themselves unemployed. Although the manufacturing is a labor absorbing sector, its true potential has not been
harnessed as yet and it has been stagnating since the tenth five year plan. Retailing helps in absorbing these shocks providing safety-net and opportunities to the superfluous labor to eke out a living where all other sectors have not been able to. Critics fear that the inflow of FDI in retailing will restrict the labor absorbing capacity of the retailing sector since the international retailing giants employ labor saving machinery and knowhow both to add value to their service as well as to enhance their profit. And given the fact that the manufacturing is not in a vibrating state to absorb those who are displaced from the retailing by the advent of FDI, the poor and the unemployed will find the going very difficult for them. There will be a hike in the rate of both unemployment and underemployment.

It has also been said that the domestic organized retailing is underdeveloped and in a nascent stage. Therefore, it is important that the domestic retailing sector is allowed to grow and consolidate first before the sector is opened to FDI. FDI in retailing may also widen the rural -urban divide in the sense that most of the retailing centers would be set up in the cities where both the density of population and level of income of the people are high. These retail centers would also attract cheap labor from the rural areas and thereby deplete the hinterland of its workforce. In addition, organized retailing with FDI would result in bevy of buildings and multiplexes. Unless their constructions are regulated, they will also add to the chaotic muddle of urban cape.

After having expatiated on the possible pitfalls of allowing FDI in retailing, it is also necessary to understand the distinction between appearance and reality. Much of the prognostication of gloom is based on a theoretical understanding of the situation. In reality, the research conducted by the Indian Council for Research on International Economic Relations (ICRIER) has revealed that there is no evidence of overall decline in the employment of the Unorganized retailing sector as a result of the advent of FDI in organized retailing and that the rate of closure of small shops for the same reason is very minimal.

One needs to be holistic in his assessment of the outcome of introducing FDI in Retailing. One of the reasons as to why a vast swath of India’s population is suffering poverty and depravation is that Agricultural sector of the country has not developed appropriately, and the main stumbling block in this regard has been that of inadequate logistics and direct access for farmers to vast markets. FDI in retailing can to a large
CHAPTER 1 INTRODUCTION OF FDI

extent ameliorate these deficiencies. If FDI in front end retailing is allowed, the international retailing giants will be motivated to invest capital, bring in knowhow and global capacity on a colossal scale and as a result a world class back end infrastructure would be built the like of which may take the government years to make (Though FDI is permitted in backend infrastructure to the extent of 100% through the automatic route, in the absence of FDI in retailing, investment in backend infrastructure has not been so forthcoming) . The foremost beneficiary of such a development would be the farmers, especially those engaged in Horticulture. Though India is the second largest producer of fruits and vegetables, lack of storage facilities cause heavy losses to farmers. Availability of adequate post harvest and cold chain infrastructure would enable the farmers to avoid wastage and distress sales. The retailers would engage the farmers directly through the contract farming programmes as also resort to direct buying from the farmers which will dilute the role of profit siphoning intermediaries, enhance the income of the farmers and give them direct access to markets. The resultant rural prosperity may open up market for other industrial goods and help bring about a more balanced regional development.

The Medium and Small Enterprise that plays a critical role in country’s overall manufacturing scenario has lagged and suffered due to lack of branding and avenues to reach out to the vast world market. The international retailers can buy from them not only for the domestic market but for their stores outside the country also and in the process provide the small and medium enterprises of the country a brand name and a window to the international market. In fact, it is estimated that FDI in retailing can significantly increase export from the country. If the domestic organized retailers are allowed to grow to the exclusion of FDI, it may bring about other above mentioned developments but not increase the exports.FDI can, in fact, spur competition among the organized retailers. The ultimate beneficiary of these competitions would be the consumers. An example of how the consumer benefit from the competition is the automobile industry in India. The intense competition among the automobile industries has resulted in a situation where the consumer has been able to purchase cars for as low a price as rupees one lakh. CRIER in its research has found that all income groups save through organized retail purchase, but the lower income groups save more. Thus, organized retail is relatively more beneficial to the less well-off consumers.
A growing and mushrooming retail sector means that its contribution to GDP would grow. It would thus help in expanding the economy, generate employment and result in more tax income.

FDI in Retailing started with FDI in cash and carry wholesale trading first permitted in 1997 to the extent of 100% under the Government approval route and thereafter in 2006 brought under the automatic route. In 2006 again FDI in Single Brand Retailing was permitted to the extent of 51%. From here it is but natural and logical that FDI would now proliferate to multi-brand retailing. But the progression to FDI in multi-brand retailing cannot take place at the cost of vital concerns raised in connection with this possible change by different groups; viz, the question of adaptability of the retailers in the unorganized sector, the question as to how the FDI in retailing can be harnessed for the benefits of Indian agriculture and Medium and Small Enterprise and above all how to impart into the economy a degree of resilience to withstand the changes that would be ushered in the wake of introduction of FDI in retailing. All these concerns have to be addressed not because the Left wing political parties and the media through their campaign have necessitated such attention but because we are constitutionally bound to do so.

Unlike FDI in single brand retailing which pertains to brand loyal and a relatively small high income clientele, FDI in multi-brand retailing would have direct impact on a vast spectrum of population and thus a sensitive issue. Left alone foreign capital will seek ways through which it can only multiply itself, and unthinking application of capital for profit, given our peculiar socio-economic conditions, may spell doom and deepen the hiatus between the rich and the poor. Thus the proliferation of foreign capital into multi-brand retailing needs to be anchored in such a way that it results in a win-win situation for India. This can be done by integrating into the rules and regulations for FDI in multi-brand retailing certain inbuilt safety valves. For example FDI in multi – brand retailing can be allowed in a calibrated manner with social safeguards so that the effect of possible labor dislocation can be analyzed and policy fine tuned accordingly. To ensure that the foreign investors make a genuine contribution to the development of infrastructure and logistics, it can be stipulated that a percentage of FDI should be spent towards building up of back end infrastructure, logistics or agro processing units. One of the justifications for introducing FDI in
multi-brand retailing is to transform the poverty stricken and stagnating rural sphere into a forward moving and prosperous rural sphere. To actualize this goal it can be stipulated that at least 50% of the jobs in the retail outlet should be reserved for rural youth and that a certain amount of farm produce be procured from the poor farmers. Similarly to develop our small and medium enterprise, it can also be stipulated that a minimum percentage of manufactured products be sourced from the SME sector in India. Public Distribution System is still in many ways the life line of the people living below the poverty line. To ensure that the system is not weakened the government may reserve the right to procure a certain amount of food grains for replenishing the buffer. The government may also put in place an exclusive regulatory framework to protect the interest of small retailers. It will ensure that the retailing giants do resort to predatory pricing or acquire monopolistic tendencies. Besides, the government and RBI need to evolve suitable policies to enable the retailers in the unorganized sector to expand and improve their efficiencies.

The Industrial policy 1991 had crafted a trajectory of change whereby every sectors of Indian economy at one point of time or the other would be embraced by liberalization, privatization and globalization. FDI in multi-brand retailing is in that sense a steady progression of that trajectory. But the government has by far cushioned the adverse impact of the change that has ensued in the wake of the implementation of Industrial Policy 1991 through safety nets and social safeguards. But the change that the movement of retailing sector into the FDI regime would bring about will require more involved and informed support from the government. One hopes that the government would stand up to its responsibility, because what is at stake is the stability of the vital pillars of the economy- retailing, agriculture, and manufacturing.

DEFINITION

1. ‘AD Category-I Bank’ means a bank (Scheduled Commercial, State or Urban Cooperative) which is authorized under Section 10(1) of FEMA to undertake all current and capital account transactions according to the directions issued by the RBI from time to time.
2. ‘Authorized Bank’ means a bank including a co-operative bank (other than an authorized dealer) authorized by the Reserve Bank to maintain an account of a person resident outside India.

3. ‘Authorized Dealer’ means a person authorized as an authorized dealer under sub-section (1) of section 10 of FEMA.

4. ‘Authorized Person’ means an authorized dealer, money changer, offshore banking unit or any other person for the time being authorized under sub-section (a) of section 10 of FEMA to deal in foreign exchange or foreign securities.

5. ‘Capital’ means equity shares; fully, compulsorily & mandatorily convertible preference shares; fully, compulsorily & mandatorily convertible debentures.

Note: Warrants and partly paid shares can be issued to person(s) resident outside India only after approval through the Government route.

6. ‘Capital account transaction’ means a transaction which alters the assets or liabilities, including contingent liabilities, outside India of persons resident in India or assets or liabilities in India of persons resident outside India, and includes transactions referred to in sub-section (3) of section 6 of FEMA.

7. ‘Control’ shall include the right to appoint a majority of the directors or to control the management or policy decisions including by virtue of their shareholding or management rights or shareholders agreements or voting agreements.

8. ‘Depository Receipt’ (DR) means a negotiable security issued outside India by a Depository bank, on behalf of an Indian company, which Review of FDI policy to include warrants and partly-paid shares is under consideration of the Government.

9. ‘Erstwhile Overseas Corporate Body’ (OCB) means a company, partnership firm, society and other corporate body owned directly or
indirectly to the extent of at least sixty percent by non-resident Indians and includes overseas trust in which not less than sixty percent beneficial interest is held by non-resident Indians directly or indirectly but irrevocably and which was in existence on the date of commencement of the Foreign Exchange Management (Withdrawal of General Permission to Overseas Corporate Bodies (OCBs) ) Regulations, 2003 (the Regulations) and immediately prior to such commencement was eligible to undertake transactions pursuant to the general permission granted under the Regulations.

10. ‘Foreign Currency Convertible Bond’ (FCCB) means a bond issued by an Indian company expressed in foreign currency, the principal and interest of which is payable in foreign currency. FCCBs are issued in accordance with the Foreign Currency Convertible Bonds and ordinary shares (through depository receipt mechanism) Scheme, 1993 and subscribed by a non-resident entity in foreign currency and convertible into ordinary shares.

11. ‘FDI’ means investment by non-resident entity/person resident outside India in the capital of an Indian company under Schedule 1 of Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations.

12. ‘FEMA’ means the Foreign Exchange Management Act.

13. ‘FIPB’ means the Foreign Investment Promotion Board constituted by the Government of India.

14. ‘Foreign Institutional Investor’(FII) means an entity established or incorporated outside India which proposes to make investment in India and which is registered as a FII in accordance with the Securities and Exchange Board of India (SEBI) (Foreign Institutional Investor) Regulations 1995.

15. ‘Foreign Portfolio Investor’(FPI) means a person registered in accordance with the provisions of Securities and Exchange Board of
CHAPTER 1 INTRODUCTION OF FDI

India (SEBI) (Foreign Portfolio Investors) Regulations, 2014, as amended from time to time.

16. ‘Foreign Venture Capital Investor’ (FVCI) means an investor incorporated and established outside India, which is registered under the Securities and Exchange Board of India (Foreign Venture Capital Investor) Regulations, 2000 {SEBI(FVCI) Regulations} and proposes to make investment in accordance with these Regulations.

17. ‘Government route’ means that investment in the capital of resident entities by non-resident entities can be made only with the prior approval of Government (FIPB, Department of Economic Affairs (DEA), Ministry of Finance or Department of Industrial Policy & Promotion, as the case may be).

18. ‘Investing Company’ means an Indian Company holding only investments in other Indian company, directly or indirectly, other than for trading of such holdings/securities.

19. ‘Investment on repatriable basis’ means investment, the sale proceeds of which, net of taxes, are eligible to be repatriated out of India and the expression ‘investment on non-repatriable basis’ shall be construed accordingly.

20. ‘Joint Venture’ (JV) means an Indian entity incorporated in accordance with the laws and regulations in India in whose capital a non-resident entity makes an investment.

TYPES OF FDI

There are two main types of foreign investment:

1. Portfolio investments - Portfolio investments are investments in purely financial assets such as bonds, stocks denominated in national currency. Portfolio or financial investments take place primarily through financial institution such as banks investment funds.
CHAPTER 1 INTRODUCTION OF FDI

2. Direct investments - These investments are the real investments in factories, capital goods, land and inventories where both capital and management are involved and the investors retains control over use of the invested capital.

Foreign direct investment (FDI) is investment directly into production in a country by a company located in another country, either by buying a company in the target country or by expanding operations of an existing business in that country.

CONCEPT OF RETAILING IN INDIA

Retail sector is one of the biggest supports of the Indian economy and accounts for 15 -15 percent of its GDP. The Indian retail market is estimated to be US$ 450 billion and one of the top ten retail markets in the world by terms of economic value. India is one of the fastest emerging retail markets in the world, with 1.2 billion people. In simple words retailing is making the final product directly available to the final consumers of the product or a sale to the ultimate consumer. Retail can also be defined as a link or interface between bulk producers and individual consumers who purchase for final consumption. Retail is the last step in the process of distribution of merchandise.

Manufacturer - Agent – Wholesaler - Retailer - Consume

Table 1

Classification of Indian Retail Industry

<table>
<thead>
<tr>
<th>Modern Format Retailers</th>
<th>Traditional Format Retailers</th>
<th>Large Indian Retailers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supermarket (food world)</td>
<td>Kiranas : Traditional mom and pop shop stores</td>
<td>hypermarkets</td>
</tr>
<tr>
<td>Hypermarkets (Big Bazaar)</td>
<td>Street market</td>
<td>Big Bazaar</td>
</tr>
<tr>
<td>Departmental stores</td>
<td>Multiple brand outlet</td>
<td>Giants</td>
</tr>
<tr>
<td>Specialty chains (IKEA)</td>
<td></td>
<td>Departmental stores</td>
</tr>
<tr>
<td>Company and owned company operated stores</td>
<td></td>
<td>Lifestyle</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Shoppers stop</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trent</td>
</tr>
</tbody>
</table>

(Source: www.ibef.org/download%5cRetail_220708.pdf)
DIVISION OF RETAIL INDUSTRY

The retail industry is mainly divided into two parts which are as follows:

- Organized Retailing - Trading activities which are undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. are referred to as organized retailing. Corporate backed hypermarkets and retail chains, and also the privately owned large retail businesses are included in this.

The Figure below shows how significant retail is to the Indian economy contributing 39% of GDP, and yet organized retailing is still in an underdeveloped early stage at only 6% of total market (2005) when compared to other countries. It is clear from this data that India has a significantly lower percentage of organized retailing compared to other developing markets such as China with 20% of organized retail penetration, and Brazil with 75%. When compared to their respective retail sector contributions to GDP, India is higher at 39% than China and Brazil.
 CHAPTER 1 INTRODUCTION OF FDI

- Unorganized Retailing - Traditional formats of low cost retailing, for example The local kirana shops, owner manned general stores, paan/ beedi shops, convenience stores, hand carts and pavement vendors etc is known as unorganized retailing.

FDI IN RETAIL SECTOR OF INDIA

- FDI up to 100% for cash and carry wholesale trading and export trading allowed under automatic route.
- 100% FDI is allowed in ‘single brand’ retailing but after government approval that is from Foreign Investment Promotion Board (FIPB).
- 100% FDI allows investment in power trading, petroleum infrastructure, processing and warehousing of rubber and coffee, diamond and coal mining. And the rest of the sectors require prior approval from RBI or FIPB.
- 51% FDI Allowed in Multi Brand Retailing.

As of 2013, India's retailing industry was essentially owner manned small shops. Indian central government denied foreign direct investment (FDI) in multi-brand retail; even single-brand retail was limited to 51% ownership and a bureaucratic process. In November 2011, India's central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for multi-brand retailers such as Wal-Mart, Carrefour and Tesco, as well single brand.
majors such as IKEA, Nike, and Apple. In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30 percent of its goods from India. The Indian government continues the hold on retail reforms for multi-brand stores. On September 2012, the Government of India formally notified the FDI reforms for single and multi brand retail, thereby making it effective under Indian law. On December 2012, the Federal Government of India allowed 51% FDI in multi-brand retail in India. The government managed to get the approval of multi-brand retail in the parliament despite intense opposition. Some states will allow foreign supermarkets like Wal-Mart, Tesco and Carrefour to open while other states will not.

**FDI IN SINGLE BRAND RETAIL**

The term ‘single brand’ has not been defined by the government in any of its circulars or notifications. While the phrase has not been defined, it implies that foreign companies would be allowed to sell goods sold internationally under a single brand, viz., Reebok, Nokia, Adidas etc. Retailing of goods of multiple brands, even if such products were produced by the same manufacturer, is not permitted. Neither any political parties nor local kiranawala shops raised any voice against it because these are high end luxury items for rich class people and does not hurt a large population. For e.g. Nike Company opens outlets in Delhi, Ahmadabad, Bangalore and Mumbai selling nothing but Nike shoes, Nike wrist watches and T-shirts only.

**FDI IN MULTI BRAND RETAIL**

FDI in Multi Brand means allowing a retail store with a foreign investment to sell multiple brands under one roof. For e.g. Big Bazaar opens malls in Mumbai, Kolkata New Delhi and Bangalore: selling t-shirts of multiple brands such Reebok, Nike, Adidas, Allen Solly, Peter England etc. as well as unbranded t-shirts (those with discount offers). So, this is multi brand retail when an outlet sells a product of more than one brand. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open up stores offering a range of household items and grocery directly to customers.
• Wal-Mart: WAL-MART is an American multi retail corporation that runs chains of large discount department stores and warehouse stores. The company is the world’s third largest public corporation according to the FORTUNE GLOBAL 500 list in 2012. It is also the world’s biggest private employer with over two million employees and is the largest retailer in the world.

WALL-MART IN INDIA

Bharti Enterprises is one of India’s leading business groups with interests in telecom, agri-business, insurance and retail and Wal-Mart, world’s leading retailer, renowned for its expertise and efficiency in logistics, supply chain management and sourcing formed a joint venture known as Bharti Wal-Mart Private Limited. Bharti and Wal-Mart hold 50:50 stakes in Bharti and Wal-Mart Private Limited.

• Carrefour: International hypermarket chain headquartered in Boulogne Billancourt, France in greater Paris. It is one of the largest hypermarket chains in the world (with 1,395 hypermarkets at the end of 2009, the second largest retail group in the world in terms of revenue and third largest in profit after Wal-Mart and Tesco).

CARREFOUR IN INDIA

The Carrefour Group announces the opening of its first cash and carry store in India in New Delhi under the name “Carrefour Wholesale Cash & carry.” With a sales area of 5200 m2, this store located east of New Delhi in the Shahadra neighbourhood will offer food and non-food to professional businesses, institutions, restaurants and local retailers. This opening is in line with the Group’s strategy to be present in major emerging markets that offer significant expansion and medium and long term growth opportunities.

TESCO: It is a British multi grocery and general merchandise retailer headquartered in Cheshunt UK. It is the third largest retailer in the world in terms of revenue and third largest in terms of profits earned. It has stores in 14 countries across Asia, Europe and North America and is the grocery market leader in UK, Malaysia, the republic of Ireland and Thailand.
TESCO IN INDIA

Tesco has had a limited presence in India with a service E-centre in Bangalore and outsourcing. In 2008 Tesco announced their intention to invest an initial $115 to open a wholesale cash and carry business based in Mumbai with the assistance of the Tata Group.

Type of products retailed

Retail sector in India is primarily categorized by the type of products retailed, as opposed to the different retail formats in operation. The Food and Grocery vertical is the largest segment and accounts for close to 60% of the total value addition. This category has the highest consumer demand across all income levels and various retail formats. The Indian consumer behavior of preferring proximity to retail formats is highly pronounced in this sector, with food, grocery and allied products largely sourced from the local stores or push-cart vendors.

Figure 3

Major Players: INDIA

<table>
<thead>
<tr>
<th>FOOD AND GROCERY</th>
<th>FASHION</th>
<th>OTHERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food world</td>
<td>Shoppers' Stop</td>
<td>Vivek's</td>
</tr>
<tr>
<td>Subhiksha</td>
<td>Westside</td>
<td>Planet M</td>
</tr>
<tr>
<td>Nilgris</td>
<td>Lifestyle</td>
<td>Music World</td>
</tr>
<tr>
<td>Adani- Rajiv’s</td>
<td>Pyramid</td>
<td>Crossword</td>
</tr>
<tr>
<td>Nirma-Radhey</td>
<td>Globus</td>
<td>Life spring</td>
</tr>
<tr>
<td></td>
<td>Ebony</td>
<td>Gautier</td>
</tr>
<tr>
<td></td>
<td>Pantaloon</td>
<td></td>
</tr>
</tbody>
</table>

REGULATION AND COMPETITION

Presently, there is no distinctive regulatory framework for the retail sector in India. Regulation of the retail sector is largely in the purview of the state governments. The growth of the retail sector influences on the various sectors of the economy like
agriculture, real estate, food processing, etc., central ministries, as the Ministry of Agriculture, the Ministry of Commerce, and the Ministry of Finance, have impact over the regulation of the sector. However, considering the huge development the sector is experiencing and its increasing overall contribution to the GDP, it requires a better and exclusive regulatory framework to sustain the impressive overall growth. Competition in the retail sector is getting stiffer in the nation as many big players both national and international are testing and applying different retail plans in the market. Entry by fresh players is still at a promising stage. But, increasing competition in the sector would, in due course, lead to a drop of margins with each retail chain trying to attract consumers through innovative and effective ways.

The key players currently operating in the Indian retail industry includes:

- Future Group,
- Trent Ltd,
- RPG Enterprise,
- Vishal Retail Ltd,
- Shoppers Stop Ltd,
- Bata India Ltd,
- Provogue India Ltd,
- Videocon Appliances Ltd,
- ITC Ltd,
- Godrej Agrovert Ltd DCM,
- Haryali Kisaan Bazaar,
- HLL,
- Bharti Group and Reliance Retail.

All of them are making huge funds, which will ultimately enable them to reap economies of scale. However, the increased competition in the sector requires efficient supply chains to sustain them and better management of stock availability and reduction of the wastage. Opening up the retail sector steadily to foreign investors would help in encouraging competition in the sector and add to the overall development of the economy. Consumers will benefit through lower prices enabled by greater competition. Regulation bodies like Competition commission of India need to
ensure that opening up the sector to giant players does not encourage cartels and create monopolies. The question of the security of the farmers would become important, as large retail chains jump to receiving agricultural goods straight from farmers. However the big giants, like Reliance, buying straight from farmers are a good idea, but if there will be a dispute between them then can the farmer sustain a legal fight against a big giant? Therefore, a strong regulatory framework would go a long way in ensuring that the growth of the retail sector is inclusive and sustainable.

**Table 2**

Global Scenario of Organised Retail

<table>
<thead>
<tr>
<th>Country</th>
<th>Share of Organised Retail (in %)</th>
<th>Share of unorganised Retail (in %)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>6</td>
<td>94</td>
<td>Immense opportunity for the growth of organised retailing</td>
</tr>
<tr>
<td>China</td>
<td>20</td>
<td>80</td>
<td>Organised retail growth phase is going on</td>
</tr>
<tr>
<td>South Korea</td>
<td>15</td>
<td>85</td>
<td>Immense opportunity for the growth of modern retailing</td>
</tr>
<tr>
<td>Indonesia</td>
<td>25</td>
<td>75</td>
<td>Organised retail is developed</td>
</tr>
<tr>
<td>Philippines</td>
<td>35</td>
<td>65</td>
<td>Organised retail is developed</td>
</tr>
<tr>
<td>Thailand</td>
<td>40</td>
<td>60</td>
<td>Organised retail is highly developed</td>
</tr>
<tr>
<td>Malaysia</td>
<td>50</td>
<td>50</td>
<td>Organised retail is highly developed</td>
</tr>
</tbody>
</table>

(Source: Articles on retailing in business line, www.thehindubusinessline.com)
Table 3
Journey of organised retail in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth</th>
<th>Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>first phase</td>
<td>Entry, Growth, Expansion, Top Line forces</td>
</tr>
<tr>
<td>2005</td>
<td>second phase</td>
<td>Range, Portfolio, Former Option</td>
</tr>
<tr>
<td>2008</td>
<td>third phase</td>
<td>End to end supply chain management, Backend Operation, Technology, Process</td>
</tr>
<tr>
<td>2012</td>
<td>fourth phase</td>
<td>M&amp;A, Shakeout, Consolidation, High Investment</td>
</tr>
<tr>
<td>2015</td>
<td>fifth phase</td>
<td>Chain stores, super markets, hyper market &amp; shopping malls</td>
</tr>
</tbody>
</table>

(Source: www.ibef.org/download%5cRetail_220708.pdf)

Table 4
Types of modern formats: Characteristics of formats

<table>
<thead>
<tr>
<th>Format</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypermarket</td>
<td>It ranges from 50000 - 100000 sqft. Offers a large basket of products, ranging from grocery, fresh and processed food, beauty and household products, clothing and appliances, etc</td>
</tr>
<tr>
<td>Supermarket</td>
<td>Supermarkets, generally large in size (4000-25000sqft.) and typical in layouts, offer not only household products but also food as an integral part of their services. The family is their target customer and typical examples of this retailing format in India are Apna Bazaar, Sabka Bazaar, Haiko, Nilgiri's, Spencer's from the RPG Group, Food Bazaar from Pantaloon Retail, etc.</td>
</tr>
<tr>
<td>Department Store</td>
<td>It caters variety of consumer needs. It ranges from 10000 – 60000 sqft. Examples are Shopper Stop, Pantaloon, Westside, Ebony, Life Style, Dubai Based et</td>
</tr>
<tr>
<td>Specialty Store</td>
<td>It focuses on special market segments and generally ranges from 2000-5000 sqft.</td>
</tr>
<tr>
<td>Discount Store</td>
<td>Factory outlets provide an opportunity to get discount on MRP. Products category can be perishable /or non perishable</td>
</tr>
</tbody>
</table>
Convenience Store | 400-2000 sqft
---|---
Mall | Largest forms of modern retailing range from 60000 sqft. To 700000 and above sqft. It provides ideal shopping experiences with products, services and entertainment under one common roof. Examples are City Mall36, Pentaloon Pyramid Shoppers Stop etc.

(Sources: www.iimcal.ac.in/community/consclub/ppts/retail.ppt (PPT. of Lakshmi Narayana Swamy and Mudit Sharma, IIMCAL)

**DETERMINANTS OF FDI INFLOW**

**Dependent Determinants**

(i) Market Size: Market size which is measured in terms of GDP is expected to have positive relationship with FDI. Countries having more GDP growth rate can attract more FDI inflows. Market oriented FDI aims to set up enterprises to supply goods and services to the local market. This kind of FDI may be undertaken to exploit new markets. The market size of host countries is very important location factor for market oriented FDI. The general implication is that host countries with larger market size, faster economic growth and higher degree of economic development will provide more and better opportunities for these industries to exploit their ownership advantages and therefore, will attract more market-oriented FDI. Even for export-oriented FDI, the market size of host countries is an important factor because larger economies can provide larger economies of scale and spill-over effects.

(ii) Resource Location: Location-specific determinants have a crucial influence on a host country’s inflow of FDI. The relative importance of different location-specific determinants depends on at least three aspects of investment:

(1) The motive for investment (e.g., resources, market or efficiency-seeking),
(2) The type of investment (e.g., services or manufacturing), and
(3) The size of the investors (small and medium MNEs or large MNEs) Natural resources protected from international competition by imposing high tariffs or quotas, still play an important role in attracting FDI by a number of developing and developed countries. The theoretical analysis concludes that policy related variables and economic determinants together explain the variations in the FDI inflows in country. Empirical analysis concludes that the variables considered
for the study are more significant in China as compared to India. In India, Long term debt is an important factor in attracting FDI but in China Foreign exchange reserves and Sum of exports and imports (Exim) have more influence on FDI. These flows will be adversely affected if the natural resources are highly protected.

(iii) Government Regulations: This consists of rules and regulations governing the entry and operations of foreign investors. FDI cannot take place unless it is allowed to enter in a country. Its potential relevance is evident when policy changes sharply in the direction of more or less openness. It should be noted, however that policy changes in the direction of openness differ in an important way from those in the direction of restriction. Open policies are basically intended to induce FDI while restrictive policies such as sweeping nationalization of foreign affiliates, can effectively close the door to FDI.

(iv) Political Stability: The reliability and political stability determines the FDI inflows. TNCs prefer stable government so that their investment is protected. Political instability may be in the form of negative attitude of the government toward TNCs, non allowance of fund transfer, currency convertibility, war, bureaucracy and corruption. Political stability can also be measured by number of changes of democratically elected governments.

(v) Tax Policies: Fiscal policies determine general tax levels, including corporate and personnel tax rates and thereby influence inward FDI. Other things being equal a country with lower tax rates should stand a greater chance of attracting FDI project than a country with higher rates. It is difficult to ascertain how much influence it can have on the total inflows of FDI.

Independent Determinants

(vi) Portfolio Diversification: The diversification of portfolio is also considered to be another determinant. The approximate mix of bonds, securities, stock, debenture, depository receipts, etc. refers to portfolio investment. The maturity of these instruments may vary from few months to few years. The concern of an investor is for these instruments at a time of risk perceptions. It implies that the investors are able to invest in or take out their capital for diversification of their portfolio assets due to perceived risk in a country. The higher is the
perceived country risk due to political, economic and financial changes in one country; an investor would like to take out his capital out of the country.

(vii) Foreign Exchange Reserves: The high level of foreign exchange reserves in terms of import cover reflects the strength of external payments position and help to improve the confidence of the prospective investors. Therefore, a positive relationship is postulated between the foreign exchange reserves and the inflow of foreign direct investment.

(viii) Internationalization: Internationalization refers to minimize or eliminate cost of external transaction by increasing transaction within subsidiaries. This theory explains that FDI is an outcome of need to lower the cost of transaction. In other words, need for internationalization of transaction cost determines the FDI inflows. The internationalization of transaction cost is achieved through FDI investment in subsidiary to eliminate high cost of Determinants of Foreign Direct Investment in India 87 transaction or replace high cost transaction through low cost when it is impossible to eliminate.

(ix) Openness: Openness of a country is generally measured as the proportion of exports and imports to the GDP (Trade/GDP). The more an emerging market tries to open its economy to outside external trade, the more this host country can attract FDI. Export oriented FDI depends upon liberal trade policies reflected in openness of the country as the TNC is not interested in market seeking behavior initially and openness helps it in importing components, capital goods, and raw material.

(x) Inflation: Low inflation rate is considered to be a sign of internal economic stability in the host country. High inflation rate indicates incapability of the Determinants of Foreign Direct Investment in India 88 government to balance its budget and failure of the central bank to conduct appropriate monetary policy. Changes in inflation rates of the domestic or foreign country are anticipated to alter the net returns and optimal investment decisions of the MNEs. It is expected to give negative impact on FDI.

(xi) Industrial Organization: Industrial organization theory states that firm specific advantages, competition capabilities, managerial skills and practice etc. are some of the crucial points for industrial organization to survive. The relative
advantages to TNCs in terms of these points make FDI to flow to a country of their choice.

(xii) The Level of External Indebtedness: The level of external indebtedness means the net external assistance to India in the form of loans. It is expected to have a negative impact on FDI inflows. The level of indebtedness shows the burden of repayment and debt servicing on the economy, thus making the country less attractive for foreign investors.

(xiii) Foreign Exchange Rate: It is the rate at which one currency may be converted into another. In other words it is the relative strength of the domestic country in relation to the foreign country. High volatility of the exchange rate of the currency in the host country discourages investment by the foreign firms as it increases uncertainty regarding the future economic and business prospects of the host country.

(xiv) Differential Rate of Return: This theory explains mostly the held belief that the FDI flows to that country which has relatively higher return on the investment. No investor would like to invest if the rate of return on investment is low. Therefore, the flow of capital will be in those countries which ensure the highest possible rate of return.

POSITIVE AND NEGATIVE IMPACT OF FDI ON INDIAN ECONOMY

FDI can create economic growth through the creation of physical assets in the economy and comparative advantages which are mentioned as follows:

ADVANTAGE

• New technology transfers-the companies bring along machinery, equipment and production and marketing processes which although obsolete in the home country could contain what constitutes new technology in the host country. The local employees learn this new technology.
• Capital formation - the companies have to invest in machinery, property etc – they have no choice.
• additional employment can occur in the supply chain if local suppliers are used
CHAPTER 1 INTRODUCTION OF FDI

- human resources development - the companies train local employees to improve their productivity – productivity increases output per employee and increases profitability
- employment creation - the companies employ some local people because their wages are under-priced relative to their productivity – reduced overall costs and increases profitability, additional employment can occur in the supply chain if local suppliers are used
- tax payments - the companies have to pay taxes & additional taxes can occur in the supply chain if local suppliers are used
- Expanded international trade - the companies have to export due to limited domestic market.

DISADVANTAGE

- Worker exploitation - Companies may suppress unions to hold down wages, benefits, and labour standard.
- Working conditions in some sub-contracted factories are harsh, atrocious and detrimental to their health.
- Economy - Companies can use their transfer pricing to their own benefit, affecting the amount of profit reported in the host country, which in turn affects the tax revenue of the host country.
- Profits are returned to the shareholders, very little of the money remains in the host countries.
- Local firms - The presence of FDI in a host country may conflict with building strong national firms. FDI may force local competitors out of business through predatory practices. In a sub-contracting relationship, it is more often the case that supplying firms stay at the bottom of the technology ladder. This deters technological enhancement in the domestic firms.
- Companies may not use the local supply chain after driving out local competitors.
- Employment - Negative multiplier effect if FDIs close their production or force local companies out of business or do not use the local supply chain.
Investor’s objective in bringing direct investment is to reap profits (UNCTAD, 2012). There is a significant trend with a flow of foreign direct investment in recent years according to UNCTAD; there are two main ones. First, the amount of foreign direct investment is decreasing in developed countries and moving to developing countries contributing to its increase. As UNCTAD data shows (UNCTAD, 2012), China is now cited as a favorite destination country for investments. Another important trend in global investment report is that efforts by countries to promote foreign investment doubled; global financial crisis occurred in 2008 led to this intensification. In fact, turmoil in financial markets, uncertain outlook for future economic growth has made many countries promote foreign investment to support economic growth and development (UNCTAD, 2012). The problem of FDI location is studied from the perspective of multinational companies. According to Dunning (1998), the choice of location is determined by a variety of factor also taking the objectives of the company into account. For example, one company may be looking for productivity gains or reduced costs. Attracting multinationals is based mainly on the ability to enhance competitive edge accordingly (Porter Company, 1990; 1998; 1985). More specifically, factors such as transport and communications networks (physical infrastructure), skilled labor (human factor) and learning opportunities backed by the presence of the stream of knowledge are crucial in selecting a location. Note that these are the main elements of the environment. McCann and Mudambi (2004) consider the Porter’s perspective of OLI (ownership, localization and internationalization). Basically, research in international management can be obtained through the integration of new initiatives or expert perspectives on regional development and economic geography. Monaghan (2012) emphasizes the importance of local organizations in attracting foreign direct investment network. According to Ireland (2008), different actors play different roles in attracting FDI; they are sub-region, regional as well as national entities such as regional development agencies, educational institutions, private service providers, chambers of commerce and others.

Interestingly, according to some researchers (Sinanagic, Civic, and Kamaric, 2012), actions taken by government agencies to improve home environment to minimum international standards results in attraction of more foreign direct investment. To
improve country’s image for a good business environment and a good place for FDI various actors need to be taken into consideration. In this sense, especially in developing countries, public money should be first used to improve infrastructure, to reduce corruption, to develop corporate finance, to educate people and prepare knowledgeable and skillful workers rather than trying to promote the country by marketing and struggling for creating advertising campaigns for this. Confirming this idea, Brossard (1998) also empirically proves that although OIP (Investment Promotion Organization) has an essential role in foreign direct investment, it is anyway not a significant factor to give a priority. More specifically, the information and data services based on the key location provided by the OIP offer the most for investor needs and it was discovered that small investors also support the staff. According to Mucchielli (1998), FDI strategy proposed is the use of different countries to attract national institutions and to promote investment. According to the author, these institutions have three objectives: to improve the image of the host country in the international investment community; Access local and foreign investors; provide a range of services like hospitality for potential investors and effective capacity building. To achieve these objectives, variety of media, advertising, trade fairs, tele-marketing should be approached and implementation process should be well monitored. On this issue, Kalamova and Conrad (2010) found that difference between actual picture of a country and a stereotype about the country also has impact on foreign direct investment flows. Stereotype cited as “Excellent German quality” emphasizes German quality yet at the same time, through its positive impact increases Germany’s ability to attract foreign direct investment. If a US company wants to produce a product with high quality for European market, there is a high probability that Germany will be considered when compared with other countries.

Finally, according to several authors (Johnson, Toledano, Strauss, and James, 2013, Mayer and Mucchielli 1999; Thomas, 2007; 2011), there is a powerful national competition to attract foreign investment, particularly, within the European Community. Dunning (1998) notes even a competition within the same country or region to attract FDI. According to Dunning (2009), different incentives are required to attract different types of investments. Similarly, the determinants of investment vary across different business types, one that led to the export of natural resources put less emphasis on the local market scale.
CHAPTER 1 INTRODUCTION OF FDI

TRENDS AND PATTERNS OF FDI INFLOWS

Table No. 5

Total FDI Inflows
(From April, 2000 to June, 2015):

Fact sheet on foreign direct investment (FDI)

<table>
<thead>
<tr>
<th></th>
<th>CUMULATIVE AMOUNT OF FDI INFLOWS</th>
<th>-</th>
<th>US$ 380,215 Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>(Equity inflows + ‘Re-invested earnings’ + ‘Other capital’)</td>
<td>-</td>
<td>US$ 380,215 Million</td>
</tr>
<tr>
<td>2.</td>
<td>CUMULATIVE AMOUNT OF FDI EQUITY INFLOWS (excluding, amount remitted through RBI’s NRI Schemes)</td>
<td>Rs. 1,293,303 Crore</td>
<td>US$ 258,020 Million</td>
</tr>
</tbody>
</table>


Table 5 shows the amount of FDI inflows from April, 2000 to June, 2015. It shows the cumulative amount of FDI Inflows both in terms of Crore and in US $ million. Point 1 shows the sum of equity inflows, reinvested earnings and other capital. Cumulative amount of inflows are 380,215 in US $ million. Other than this, cumulative FDI equity inflows which excludes amount remitted through RBI’s-NRI schemes are 1,293,303 in Crore and 258,020 in US $ million.

Table No. 6

FDI Inflows during Financial Year 2015-16 (June, 2015):

<table>
<thead>
<tr>
<th></th>
<th>TOTAL FDI INFLOWS INTO INDIA US$ (Equity inflows + ‘Re-invested earnings’ + ‘Other capital’) (As per RBI’s Monthly bulletin dated: 10.08.2015).</th>
<th>-</th>
<th>US$ 2929 Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>-</td>
<td>-</td>
<td>US$ 2929 Million</td>
</tr>
<tr>
<td>2.</td>
<td>FDI EQUITY INFLOWS</td>
<td>Rs. 13,115 Crore</td>
<td>US$ 2,054 Million</td>
</tr>
</tbody>
</table>

Table 6 shows the amount of FDI inflows during the Financial Year, 2015(June). It shows the total amount of FDI Inflows both in terms of Crore and in US $ million. Point 1 shows the sum of equity inflows, reinvested earnings and other capital. Total amount of inflows are 2,929 in US $ million. Point 2 shows the FDI equity inflows amounted 13,115 in Crore and 2,054 in US $ million.

Table No. 7

FDI Equity Inflows (Month-wise) during the Financial Year 2015-16:-

<table>
<thead>
<tr>
<th>Financial Year 2015-16</th>
<th>Amount of FDI Equity inflows</th>
</tr>
</thead>
<tbody>
<tr>
<td>(April-March)</td>
<td>(In Rs. Crore)</td>
</tr>
<tr>
<td>1. April, 2015</td>
<td>22,620</td>
</tr>
<tr>
<td>2. May, 2015</td>
<td>24,564</td>
</tr>
<tr>
<td>3. June, 2015</td>
<td>13,115</td>
</tr>
<tr>
<td>2015-16 (from April, 2015 to June, 2015)</td>
<td>60,299</td>
</tr>
<tr>
<td>2014-15 (from April, 2014 to June, 2014)</td>
<td>43,171</td>
</tr>
<tr>
<td>%age growth over last year</td>
<td>( + ) 40 %</td>
</tr>
</tbody>
</table>

The above Table 7 and chart 1 shows the amount of FDI inflows during Financial Year from April, 2015 to March, 2016 (up to June, 2015). It shows the amount in Rs Crore and in US $ mn. The highest FDI inflows in the country is in the month of May 2015 i.e. 24,564 in Rs Crore and 3,850 in US $ mn. Followed by April, 2015 and June, 2015 with inflows 22,620 in Rs. Crore (3,605 in US$ mn) and 13,115 in Rs. Crore (2,045 in US$ mn) respectively. It can also be observed that there is 40% growth over last year.


**Table No. 8**

FDI Equity Inflows

(Month-wise) during the Calendar Year 2015:

<table>
<thead>
<tr>
<th>Calendar Year 2015 (Jan.-Dec.)</th>
<th>Amount of FDI Equity Inflows</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(In Rs. Crore)</td>
</tr>
<tr>
<td>1. January, 2015</td>
<td>27,880</td>
</tr>
<tr>
<td>2. February, 2015</td>
<td>20,397</td>
</tr>
<tr>
<td>3. March, 2015</td>
<td>13,221</td>
</tr>
<tr>
<td>4. April, 2015</td>
<td>22,620</td>
</tr>
<tr>
<td>5. May, 2015</td>
<td>24,564</td>
</tr>
<tr>
<td>6. June, 2015</td>
<td>13,115</td>
</tr>
<tr>
<td>Year 2015 (up to June, 2015)</td>
<td>121,797</td>
</tr>
<tr>
<td>Year 2014 (up to June, 2014)</td>
<td>90,876</td>
</tr>
<tr>
<td>%age growth over last year</td>
<td>( + ) 34 %</td>
</tr>
</tbody>
</table>


**Graph 2**

FDI Equity Inflow

(Month-wise) during the Calendar Year 2015
The above Table 8 and chart 2 shows the amount of FDI inflows during the Calendar Year January, 2015 to December, 2015(up to June, 2015). It shows the amount in Rs Crore and in US $ mn. The highest FDI inflows in the country is in the month January 2015 i.e. 27,880 in Rs Crore and 4,481 in US $ mn. Month like January 2014 have 13,589 in Rs Crore and 2,189 in US $ mn. Comparing both we can observe that there is a 34% growth in FDI inflow.

Table No. 9

Sectors Attracting Highest FDI Equity Inflows:
Amount in Rs. Crores (US$ in millions)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Services sector</td>
<td>13294 (2225)</td>
<td>19,963 (3,253)</td>
<td>4,036 (636)</td>
<td>209,578 (43,350)</td>
<td>17%</td>
</tr>
<tr>
<td>2.</td>
<td>Construction development Townships, housing Built-up Infrastructure</td>
<td>7508 (1226)</td>
<td>4,582 (758)</td>
<td>216 (34)</td>
<td>113,355 (24,098)</td>
<td>9%</td>
</tr>
<tr>
<td>3.</td>
<td>Computer software &amp; Hardware</td>
<td>6896 (1126)</td>
<td>13,564 (2,200)</td>
<td>16,245 (2,556)</td>
<td>89,481 (17,575)</td>
<td>7%</td>
</tr>
<tr>
<td>4.</td>
<td>Telecommunications (telephone services)</td>
<td>7987 (1307)</td>
<td>17,372 (2,895)</td>
<td>2,517 (395)</td>
<td>86,609 (17,453)</td>
<td>7%</td>
</tr>
<tr>
<td>5.</td>
<td>Automobile industry</td>
<td>9027 (1517)</td>
<td>15,794 (2,570)</td>
<td>6,914 (1,094)</td>
<td>70,906 (13,477)</td>
<td>5%</td>
</tr>
<tr>
<td>6.</td>
<td>Drugs &amp; pharmaceuticals</td>
<td>7191 (1279)</td>
<td>9,211 (1,523)</td>
<td>1,370 (215)</td>
<td>66,652 (13,336)</td>
<td>5%</td>
</tr>
<tr>
<td>7.</td>
<td>Chemicals (other than fertilizers)</td>
<td>4738 (878)</td>
<td>4,077 (669)</td>
<td>1,598 (251)</td>
<td>50,909 (10,588)</td>
<td>4%</td>
</tr>
<tr>
<td>8.</td>
<td>Power</td>
<td>6519 (1066)</td>
<td>3,985 (657)</td>
<td>1,717 (271)</td>
<td>48,357 (9,828)</td>
<td>4%</td>
</tr>
<tr>
<td>9.</td>
<td>Trading</td>
<td>8191 (1343)</td>
<td>16,962 (2,761)</td>
<td>5,679 (897)</td>
<td>49,479 (8,958)</td>
<td>4%</td>
</tr>
<tr>
<td>10.</td>
<td>Metallurgical industries</td>
<td>3436 (568)</td>
<td>2,897 (472)</td>
<td>845 (133)</td>
<td>41,992 (8,680)</td>
<td>3%</td>
</tr>
</tbody>
</table>

The above Table No.9 and chart 3 depicts the country having the highest FDI in India. The report shows that the MAURITIUS country has the highest foreign investor in India with 34%. After Mauritius, Singapore and U.K. invest the highest FDI in India with 14% and 9% respectively. Japan also gets 4th position with 7% FDI in India.
## Table No. 10

DIPP’s – Financial Year-wise FDI Equity Inflows:

(As per DIPP’s FDI data base – equity capital components only):

<table>
<thead>
<tr>
<th>S.NO</th>
<th>FINANCIAL YEAR (APRIL-MARCH)</th>
<th>AMOUNT OF FDI INFLOWS</th>
<th>% age growth over previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>IN Rs crore</td>
<td>IN Rs million $</td>
</tr>
<tr>
<td>1.</td>
<td>2000-2001</td>
<td>10,733</td>
<td>2,463</td>
</tr>
<tr>
<td>2.</td>
<td>2001-2002</td>
<td>18,654</td>
<td>4,065</td>
</tr>
<tr>
<td>3.</td>
<td>2002-2003</td>
<td>12,871</td>
<td>2,705</td>
</tr>
<tr>
<td>4.</td>
<td>2003-2004</td>
<td>10,064</td>
<td>2,188</td>
</tr>
<tr>
<td>5.</td>
<td>2004-2005</td>
<td>14,653</td>
<td>3,219</td>
</tr>
<tr>
<td>6.</td>
<td>2005-2006</td>
<td>24,584</td>
<td>5,540</td>
</tr>
<tr>
<td>7.</td>
<td>2006-2007</td>
<td>56,390</td>
<td>12,492</td>
</tr>
<tr>
<td>8.</td>
<td>2007-2008</td>
<td>98,642</td>
<td>24,575</td>
</tr>
<tr>
<td>9.</td>
<td>2008-2009</td>
<td>142,829</td>
<td>31,396</td>
</tr>
<tr>
<td>10.</td>
<td>2009-2010</td>
<td>123,120</td>
<td>25,834</td>
</tr>
<tr>
<td>11.</td>
<td>2010-2011</td>
<td>97,320</td>
<td>21,383</td>
</tr>
<tr>
<td>12.</td>
<td>2011-2012</td>
<td>165,146</td>
<td>35,121</td>
</tr>
<tr>
<td>13.</td>
<td>2012-2013</td>
<td>121,907</td>
<td>22,423</td>
</tr>
<tr>
<td>14.</td>
<td>2013-2014</td>
<td>147,518</td>
<td>24,299</td>
</tr>
<tr>
<td>15.</td>
<td>2014-2015</td>
<td>189,107</td>
<td>30,931</td>
</tr>
<tr>
<td>16.</td>
<td>2015-2016(APRIL-JUNE 15&quot;)</td>
<td>60,298</td>
<td>9,508</td>
</tr>
<tr>
<td></td>
<td>CUMULATIVE TOTAL (from April, 2000 to June, 2015)</td>
<td>1,293,836</td>
<td>258,142</td>
</tr>
</tbody>
</table>

Source: RBI’s Bulletin July, 2015 dt.10.08.2015
The above Table No. 10 shows the total amount of FDI inflows in India during the last 15 years i.e. 2000 to 2015. The FDI inflow from 2000-2001 i.e. 10,733 Crore Rs. in 2001-02 it was 18,654 Crore rupees.

It shows the Good result in the FDI inflows in India. Little bit ups and downs in FDI inflows up to 2005-06, but after that great hike in the year 2007-08 i.e. 98,642 crore rupees as compare to earlier years.

In 2008-2009 there was a huge investment in FDI in 142,829 Crore Rupees and so on. But again there were some fluctuations in inflow of FDI in the years between 2010-2014, soon giving the highest figures in last 15 years 1,89,107 Crore Rupees FDI in 2014-2015 So we can say that the foreign investment have been on rise in India. Currently the inflow of FDI from April, 2015 to June, 2015 figures 60,298.

**SOURCES OF FDI IN INDIA**

India has broadened the sources of FDI in the period of reforms. There were 120 countries investing in India in 2008 as compared to 15 countries in 1991. Thus the number of countries investing in India increased after reforms. After liberalization of economy Mauritius, South Korea, Malaysia, Cayman Islands and many more countries predominantly appears on the list of major investors apart from U.S., U.K., Germany, Japan, Italy, and France which are not only the major investor now but during pre- liberalizations era also. The analysis in presents the major investing countries in India. Mauritius is the largest investor in India. FDI inflows from Mauritius constitute about 39.9% of the total FDI in India and enjoying the top position on India’s FDI map from 1995. This dominance of Mauritius is because of the Double Taxation Treaty i.e. DTAA- Double Taxation Avoidance Agreement between the two countries, which favours routing of investment through this country. This (DTAA) type of taxation treaty has been made out with Singapore also.

**Table 11**

Major Sources of FDI In India

<table>
<thead>
<tr>
<th>Mauritius</th>
<th>USA</th>
<th>Singapore</th>
<th>UK</th>
<th>Netherlands</th>
<th>Japan</th>
<th>Germany</th>
<th>Cyprus</th>
<th>France</th>
<th>Switzerland</th>
</tr>
</thead>
<tbody>
<tr>
<td>34.74</td>
<td>5.57</td>
<td>13.90</td>
<td>8.65</td>
<td>5.94</td>
<td>7.29</td>
<td>3.18</td>
<td>3.15</td>
<td>1.80</td>
<td>1.22</td>
</tr>
</tbody>
</table>

Source: RBI bulletin
CHAPTER 1 INTRODUCTION OF FDI

Graph 4

Major Sources Of FDI In India

The US is the second largest investing country in India. While comparing the investment made by both (Mauritius and US) countries one interesting fact comes up which shows that there is a huge difference (between FDI inflows to India from Mauritius and the US) in the volume of FDI received from Mauritius and the US. FDI inflow from Mauritius is more than double then that from the US. The other major countries are Singapore with a relative share of 7.2% followed by UK, Netherlands, Japan, Germany, Cyprus, France, and Switzerland.

Thus, an analysis of last eighteen years of FDI inflows shows that only five countries accounted for nearly 66% of the total FDI inflows in India. India needs enormous amount of financial resources to carry forward the agenda of transformation (i.e. from a planned economy to an open market), to tackle imbalance in BOP, to accelerate the rate of economic growth and have a sustained economic growth.

PROBLEMS FOR LOW FDI FLOW TO INDIA

India, the largest democratic country with the second largest population in the world, with rule of law and a highly educated English speaking work force, the country is considered as a safe haven for foreign investors. Yet, India seems to be suffering from a host of self-imposed restrictions and problems regarding opening its markets completely too global investors by implementing full scale economic reforms. Some of the major impediments for India’s poor performance in the area of FDI are:
political instability, poor infrastructure, confusing tax and tariff policies, Draconian labour laws, well entrenched corruption and governmental regulations.

1. Lack of adequate infrastructure: It is cited as a major hurdle for FDI inflows into India. This bottleneck in the form of poor infrastructure discourages foreign investors in investing in India. India’s age old and biggest infrastructure problem is the supply of electricity. Power cuts are considered as a common problem and many industries are forced to close their business.

2. Stringent labor laws: Large firms in India are not allowed to retrench or layoff any workers, or close down the unit without the permission of the state government. These laws protect the workers and thwart legitimate attempts to restructure business. To retrench unnecessary workers, firms require approval from both employees and state governments—approval that is rarely given. Further, Trade Unions extort huge sums from companies through over-generous voluntary retirement schemes.

3. Corruption: Corruption is found in nearly every public service, from defense to distribution of subsidized food to the poor people, to the generation and transmission of electric power. The combination of legal hurdles, lack of institutional reforms, bureaucratic decision-making and the allegations of corruption at the top have turned foreign investors away from India.

4. Lack of decision making authority with the state governments: The reform process of liberalizing the economy is concentrated mainly in the Centre and the State Governments are not given much power. In most key infrastructure areas, the central government remains in control. Brazil, China, and Russia are examples where regional governments take the lead in pushing reforms and prompting further actions by the central government.

5. Limited scale of export processing zones: India’s export processing zones have lacked dynamism because of several reasons, such as their relatively limited scale; the Government’s general ambivalence about attracting FDI; the unclear and changing incentive packages attached to the zones; and the power of the central government in the regulation of the zones. India which established its first Export Processing Zone (EPZ) in 1965 has failed to develop the zones when compared to China which took initiative for establishment only in 1980.
6. High corporate tax rates: Corporate tax rates in East Asia are generally in the range of 15 to 30 percent, compared with a rate of 48 percent for foreign companies in India. High corporate tax rate is definitely a major disincentive to foreign corporate investment in India.

7. Indecisive government and political instability: There were too many anomalies on the government side during past two decades and they are still affecting the direct inflow of FDI in India such as mismanagement and oppression by the different company, which affect the image of the country and also deject the prospective investor, who is very much conscious about safety and constant return on their investment.

FDI AND INDIAN ECONOMY

Introduction

Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For a country where foreign investments are being made, it also means achieving technical know-how and generating employment.

The Indian government’s favorable policy regime and robust business environment have ensured that foreign capital keeps flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms across sectors such as defense, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others.
According to Department of Industrial Policy and Promotion (DIPP), the total FDI inflows soared by 24.5 per cent to US$ 44.9 billion during FY2015, as compared to US$ 36.0 billion in FY2014. FDI into India through the Foreign Investment Promotion Board (FIPB) route shot up by 26 per cent to US$ 31.9 billion in the year FY2015 as against US$ 25.3 billion in the previous year, indicating that government’s effort to improve ease of doing business and relaxation in FDI norms is yielding results.

Data for FY2015 indicates that the increase in the FDI inflows was primarily driven by investments in infrastructure and services sector. Within Infrastructure, Oil & Gas, Mining and Telecom witnessed higher FDI inflows, whereas IT services and trading (wholesale, cash & carry) drove the services inflows. Most recently, the total FDI
inflows for the month of September 2015 touched US$ 2.9 billion as compared to US$ 2.5 billion in the same period last year.

During FY2015, India received the maximum FDI equity inflows from Mauritius at US$ 9.03 billion, followed by Singapore (US$ 6.74 billion), Netherlands (US$ 3.43 billion), Japan (US$ 2.08 billion) and the US (US$ 1.82 billion). Healthy inflow of foreign investments into the country helped India’s balance of payments (BoP) situation and stabilised the value of rupee.

FDI in India witnessed an increase of 13 per cent and reached US$ 16.63 billion during April-September, 2015 as compared to US$ 14.69 billion in the same period last year.

According to the data released by Grant Thornton India, the total merger and acquisitions (M&A) and private equity (PE) deals in the month of August 2015 were valued at US$ 2.6 billion (151 deals), which is 62 per cent higher in volume as compared to August 2014

Figure 5

Indian Retail Market Analysis - Five Forces Model
**Investments/ developments**

Based on the recommendations of Foreign Investment Promotion Board (FIPB), the Government, in a meeting held on September 29, 2015, approved 18 proposals of FDI amounting to approximately Rs 5,000 crore (US$ 770 million).

**Some of the recent significant FDI announcements are as follows**

- Japan has won the right to construct India’s first bullet train, while offering a loan of US$ 8.11 billion to India for the same.

- Chinese mobile handset maker, Coolpad Group Limited, has committed US$ 300 million for setting up a research and development (R&D) centre and its own assembly line in India by 2017.

- Amazon India expanded its logistics footprint three times to more than 2,100 cities and towns in 2015, as Amazon.com invested more than US$ 700 million in its India operations since July 2014.

- Indian Railways has issued a Letter of Award (LoA) to US-based General Electric (GE) for a Rs 14,656 crore (US$ 2.2 billion) diesel locomotive factory project at Marhowra, and to French transport major Alstom for Rs 20,000 crore (US$ 3 billion) electric locomotive project in Madhepura, Bihar.

- Kellogg Co, world's largest cereal maker, is making large investments in manufacturing and plans to set up its first Research and Development (R&D) facility in India at Taloja, near Mumbai.

- The Government of Karnataka has signed an agreement with the Taiwan Electrical and Electronic Manufacturers Association for the purpose of creating a Taiwanese electronic manufacturing cluster near the Bengaluru airport, with an investment expectation of Rs 3,200 crore (US$ 500 million).

- Posco Korea, the multinational Korean steel company, has signed an agreement with Shree Uttam Steel and Power (part of Uttam Galva Group) to set up a steel plant at Satarda in Maharashtra.
- Foxconn has signed a Memorandum of Understanding (MoU) with Maharashtra state government to invest US$ 5 billion over the next three years for setting up a manufacturing unit between Mumbai and Pune.

- Global giants such as Bombardier, Hyundai-ROTEM, TALGO and CAF have queued up to manufacture semi high-speed train sets in India, which will be used for faster inter-city travel.

- Germany-based ThyssenKrupp group is aiming to double its revenue from India to US$ 1 billion in next three-four years while the group’s elevator unit, ThyssenKrupp Elevator, plans to invest EUR 44 million (US$ 50.5 million) to set up a manufacturing plant in Chakan, Pune.

- Swedish home furnishing brand Ikea has made a long-term plan of opening 25 stores in India by making an investment worth Rs 12,500 crore (US$ 1.9 billion).

- Google plans to invest Rs 1,500 crore (US$ 234.3 million) for a new campus in Hyderabad which will be focused on three key areas — Google Education, Google Fibre broadband services and Street view.

- Warburg Pincus, a US based Private Equity (PE) firm, has planned to invest Rs 850 crore (US$ 132.8 million) in Ecom Express – an India based logistics solutions provider.

**Government Initiatives**

The Government of India has amended the FDI policy regarding Construction Development Sector. The amended policy includes easing of area restriction norms, reduction of minimum capitalisation and easy exit from project. Further, in order to provide boost to low cost affordable housing, it has indicated that conditions of area restriction and minimum capitalisation will not apply to cases committing 30 per cent of the project cost towards affordable housing.

The Government of India has recently relaxed foreign direct investment (FDI) policy in 15 sectors, such as raising the foreign investment limit for some sectors, easing the conditions for others and putting many on the automatic route for approval. The
sectors that benefited from the relaxation include defense, real estate, private banking, defense, civil aviation, single brand retail and news broadcasting. The new rules provide for easier exit from investment in the construction sector while foreign investment limit in defense and airlines was allowed up to 49 per cent through the automatic route. Banks were allowed fungible FDI investment up to 74 per cent, which means that FII investment in private banks can rise to this limit.

The Government of India recently relaxed the FDI policy norms for Non-Resident Indians (NRIs). Under this, the non-repatriable investments made by the Persons of Indian Origin (PIOs), Overseas Citizens of India (OCI) and NRIs will be treated as domestic investments and will not be subject to FDI caps.

The government has also raised FDI cap in insurance from 26 per cent to 49 per cent through a notification issued by the DIPP. The limit is composite in nature as it includes foreign investment in the form of foreign portfolio investment, foreign institutional investment, qualified foreign investment, foreign venture capital investment, and non-resident investment.

The Cabinet Committee on Economic Affairs (CCEA) has raised the threshold for foreign direct investment requiring its approval to Rs 3,000 crore (US$ 469 million) from the present Rs 1,200 crore (US$ 187 million). This decision is expected to expedite the approval process and result in increased foreign investment inflow.

India’s cabinet cleared a proposal which allows 100 per cent FDI in railway infrastructure, excluding operations. Though the initiative does not allow foreign firms to operate trains, it allows them to invest in areas such as creating the network and supplying trains for bullet trains etc.

India is likely to grant most favoured nation (MFN) treatment to 15 countries that are in talks regarding an agreement on the Regional Comprehensive Economic Partnership (RCEP), which would result in significant easing of investment rules for these countries.

The Government of India plans to further simplify rules for Foreign Direct Investment (FDI) such as increasing FDI investment limits in sectors and include more sectors in the automatic approval route, to attract more investments in the country.
Road ahead

According to United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2015, India acquired ninth slot in the top 10 countries attracting highest FDI in 2014 as compared to 15th position last year. The report also mentioned that the FDI inflows to India are likely to exhibit an upward trend in 2015 on account of economic recovery. India also jumped 16 notches to 55 among 140 countries in the World Economic Forum’s Global Competitiveness Index that ranks countries on the basis of parameters such as institutions, macroeconomic environment, education, market size and infrastructure among others.

India will require around US$ 1 trillion in the 12th Five-Year Plan (2012–17), to fund infrastructure growth covering sectors such as highways, ports and airways. This would require support from FDI flows. During 2014, foreign investment was witnessed in sectors such as services, telecommunications, computer software and hardware, construction development, power, trading, and automobile, among others.

Exchange Rate Used: INR 1 = US$ 0.015 as on December 28, 2015

(References: Media Reports, Press Releases, Press Information Bureau)

Figure 6

FDI POLICY-MILSTONE

Source: Deloitte Touche Tohmatsu Ltd.
CHAPTER 1 INTRODUCTION OF FDI

FDI POLICY FRAMEWORK IN INDIA

Policy regime is one of the key factors driving investment flows to a country. Apart from underlying overall fundamentals, ability of a nation to attract foreign investment essentially depends upon its policy regime - whether it promotes or restrains the foreign investment flows.

This section undertakes a review of India’s FDI policy framework. There has been a sea change in India’s approach to foreign investment from the early 1990s when it began structural economic reforms about almost all the sectors of the economy.

PRE-LIBERALISATION PERIOD:

Historically, India had followed an extremely careful and selective approach while formulating FDI policy in view of the governance of „import-substitution strategy“ of industrialisation. The regulatory framework was consolidated through the enactment of Foreign Exchange Regulation Act (FERA), 1973 wherein foreign equity holding in a joint venture was allowed only up to 40 per cent. Subsequently, various exemptions were extended to foreign companies engaged in export oriented businesses and high technology and high priority areas including allowing equity holdings of over 40 per cent. Moreover, drawing from successes of other country experiences in Asia, Government not only established special economic zones (SEZs) but also designed liberal policy and provided incentives for promoting FDI in these zones with a view to promote exports.

The announcements of Industrial Policy (1980 and 1982) and Technology Policy (1983) provided for a liberal attitude towards foreign investments in terms of changes in policy directions. The policy was characterised by de-licensing of some of the industrial rules and promotion of Indian manufacturing exports as well as emphasising on modernisation of industries through liberalised imports of capital goods and technology. This was supported by trade liberalisation measures in the form of tariff reduction and shifting of large number of items from import licensing to Open General Licensing (OGL).
CHAPTER 1 INTRODUCTION OF FDI

POST-LIBERALISATION PERIOD:

A major shift occurred when India embarked upon economic liberalisation and reforms program in 1991 aiming to raise its growth potential and integrating with the world economy. Industrial policy reforms slowly but surely removed restrictions on investment projects and business expansion on the one hand and allowed increased access to foreign technology and funding on the other. A series of measures that were directed towards liberalizing foreign investment included:

1) Introduction of dual route of approval of FDI—RBI’s automatic route and Government’s approval (SIA/FIPB) route.
2) Automatic permission for technology agreements in high priority industries and removal of restriction of FDI in low technology areas as well as liberalisation of technology imports.
3) Permission to Non-resident Indians (NRIs) and Overseas Corporate Bodies (OCBs) to invest up to 100 per cent in high priorities sectors.
4) Hike in the foreign equity participation limits to 51 per cent for existing companies and liberalisation of the use of foreign “brands name”.
5) Signing the Convention of Multilateral Investment Guarantee Agency (MIGA) for protection of foreign Investments.

These efforts were boosted by the enactment of Foreign Exchange Management Act (FEMA), 1999 [that replaced the Foreign Exchange Regulation Act (FERA), 1973] which was less stringent. In 1997, Indian Government allowed 100% FDI in cash and carry wholesale and FDI in single brand retailing was allowed 51% in June, 2006. After a long debate, further amendment was made in December, 2012 which led FDI to 100% in single brand retailing and 51% in multiple brand retailing.