CHAPTER 5
FINDING, RECOMMENDATION, SUGGESTIONS & CONCLUSION

This chapter presents the findings and conclusion of research work that includes a discussion of the main findings from the research studies in the context of the literature.

FINDING

1) FDI is an important tool for economic growth of India.

2) FDI will create good profile jobs for skilled employee in Indian service sector.

3) Retailing helps in absorbing the unemployment in agriculture sector and providing safety net and opportunities to the superfluous labour.

4) Organised retailing with FDI helps in infrastructure development would result in berry of building and opening of multiplexes in rural areas.

5) FDI in retailing resultant rural prosperity to open up market for the other industrial goods and helps bring about a more balanced regional development.

6) FDI in retailing can significantly increase export from the country.

7) Customers get benefited from FDI in retailing because competition would take place so that they get best quality product at right price.

8) FDI in retailing sector means that its contribution to GDP would grow.

9) FDI helps in expanding the economy, generate employment and result in more tax income.

10) FDI help in socio economic equilibrium of the entire economy.

11) FDI retail attract more of technical up gradation.

12) Although India’s share in global FDI has increased considerably, but the pace of FDI inflows has been slower than China, Singapore, Brazil, and Russia.
13) Due to the continued economic liberalization since 1991, India has seen a decade of 7 plus percent of economic growth. In fact, India’s economy has been growing more than 9 percent for three consecutive years since 2006 which makes the country a prominent performer among global economies. At present India is the 4th largest and 2nd fastest growing economy in the world. It is the 11th largest economy in terms of industrial output and has the 3rd largest pool of scientific and technical manpower.

14) There has been a generous flow of FDI in India since 1991 and its overall direction also remained the same over the years irrespective of the ruling party.

15) India has received increased NRI’s deposits and commercial borrowings largely because of its rate of economic growth and stability in the political environment of the country.

16) An analysis of last fifteen years of trends in FDI inflows in India shows that initially the inflows were low but there is a sharp rise in investment flows from 2005 onwards.

17) A comparative analysis of FDI approvals and inflows reveals that there is a huge gap between the amount of FDI approved and its realization into actual disbursements. A difference of almost 40 percent is observed between investment committed and actual inflows during the year 2005-06.

18) In order to have a generous flow of FDI, India has maintained Double Tax Avoidance Agreements (DTAA) with nearly 70 countries of the world.

19) Among the sectors, services sector received the highest percentage of FDI inflows in 2008. Other major sectors receiving the large inflows of FDI apart from services sector are electrical and electronics, telecommunications, transportations and construction activities etc. It is found that nearly 41 percent of FDI inflows are in high priority areas like services, electrical equipments, telecommunications etc.

20) India has received maximum number of financial collaborations as compared to technical collaborations.
21) Services sector puts the economy on a proper gliding path by contributing 55 percent to GDP. There is a continuously increasing trend of FDI inflows in services sector with a steep rise in the inflows from 2005 onwards. Services sector received an investment of 19.2 bn from 1991 to 2008. The service sector having the highest FDI equity inflow in India. 17% from 2000-2015 Construction development.

22) Infrastructure sector received 9 percent of total FDI inflows from 2000 to 2015. Initially, the inflows were low but there is a sharp rise in FDI inflows from 2005 onwards. Among the subsectors of Infrastructure sector, telecommunications received the highest percentage (8 percent) of FDI inflows. In India highest percentage of FDI inflows for infrastructure sector is with New Delhi (23.2 percent) and Mumbai (20.47 percent). Infrastructure sector received a total of 2528 numbers of foreign collaborations in India. Out of 2528 numbers of foreign collaborations 633 were technical and 2795 were financial collaborations, which involves an equity participation of US$ 111.0 bn. The top five Indian companies which received FDI inflows in Infrastructure sector during 2000 to 2015 are IDEA, Cellule Ltd., Bhaik Infotel P. Ltd., Dabhol power Company Ltd., and Aircel Ltd.

23) Trading sector received 4 percent of the total FDI inflows from 2000-2015. The sector shows a trailing pattern upto 2005 but there is an exponential rise in inflows from 2006 onwards. Trading sector received 1130 (1111 numbers of financial collaborations and 20 numbers of technical collaborations) numbers of foreign collaborations. Major investment in this sector came from Mauritius (24.69 percent), Japan (14.81 percent) and Cayman Island (14.6 percent) respectively during 2000-2008. In India, Mumbai (40.76 percent), Bangalore (15.97 percent) and New Delhi (12.05 percent) are the top three cities which have received highest investment in trading sector upto Dec. 2015.

24) Automobile Industry was the part of transportation sector but it became an independent sector in 2000. During Jan 2000 to Dec. 2015 this industry received an investment of US$ 13.4 bn which is 5% of the total FDI inflows in the country. Japan (27.59%), Italy (14.66%) and USA (13.88%) are the prominent investors in this sector. In India Mumbai and New Delhi with 36.98
% and 26.63 percent of investment becomes favorite’s destination for this sector. Maximum numbers of technical collaborations in this sector are with Japan.

25) Computer Software and Hardware sector received an investment of US$ 17.5 bn during Jan 2000 to 2015. which is 7% of the total FDI inflows in the country From 1991 to Dec. 1999 computer software and hardware was the part of electrical and electronics sector. However, it was segregated from electrical and electronics sector in 2000. This sector received heavy investment from Mauritius apart from USA and Singapore.

SUGGESTIONS

According to my analysis of the study on impact OF FDI in an Indian economy, I suggest some points through this the flow of FDI increased, these points are as follows:-

Thus, it is found that FDI as a strategic component of investment is needed by India for its sustained economic growth and development. FDI is necessary for creation of jobs, expansion of existing manufacturing industries and development of the new one. Indeed, it is also needed in the healthcare, education, R&D, infrastructure, retailing and in long term financial projects. So, the study recommends the following suggestions:

- The study urges the policy makers to focus more on attracting diverse types of FDI.

- The policy makers should design policies where foreign investment can be utilised as means of enhancing domestic production, savings, and exports; as medium of technological learning and technology diffusion and also in providing access to the external market.

- It is suggested that the government should push for the speedy improvement of infrastructure sector’s requirements which are important for diversification of business activities.
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- Government should ensure the equitable distribution of FDI inflows among states. The central government must give more freedom to states, so that they can attract FDI inflows at their own level. The government should also provide additional incentives to foreign investors to invest in states where the level of FDI inflows is quite low.

- Government should open doors to foreign companies in the export – oriented services which could increase the demand of unskilled workers and low skilled services and also increases the wage level in these services.

- Government must target at attracting specific types of FDI that are able to generate spillovers effects in the overall economy. This could be achieved by investing in human capital, R&D activities, environmental issues, dynamic products, productive capacity, infrastructure and sectors with high income elasticity of demand.

- The government must promote policies which allow development process starts from within (i.e. through productive capacity and by absorptive capacity).

- It is suggested that the government endeavour should be on the type and volume of FDI that will significantly boost domestic competitiveness, enhance skills, technological learning and invariably leading to both social and economic gains

- It is also suggested that the government must promote sustainable development through FDI by further strengthening of education, health and R&D system, political involvement of people and by ensuring personal security of the citizens.

- Government must pay attention to the emerging Asian continent as the new economic power – house of business transaction and try to boost the trade within this region through bilateral, multilateral agreements and also concludes FTAs with the emerging economic Asian giants.
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- FDI should be guided so as to establish deeper linkages with the economy, which would stabilize the economy (e.g. improves the financial position, facilitates exports, stabilize the exchange rates, supplement domestic savings and foreign reserves, stimulates R&D activities and decrease interest rates and inflation etc.) and providing to investors a sound and reliable macroeconomic environment.

- As the appreciation of Indian rupee in the international market is providing golden opportunity to the policy makers to attract more FDI in Greenfield projects as compared to Brownfield investment. So the government must invite Greenfield investments.

- It is suggested that the policy makers should ensure optimum utilization of funds and timely implementation of projects. It is also observed that the realisation of approved.

- Flexible labour laws needed: China gets maximum FDI in the manufacturing sector, which has helped the country become the manufacturing hub of the world. In India the manufacturing sector can grow if infrastructure facilities are improved and labour reforms take place. The country should take initiatives to adopt more flexible labour laws.

- Re look at sectoral caps: Though the Government has hiked the sectoral cap for FDI over the years, it is time to revisit issues pertaining to limits in such sectors as coal mining, insurance, real estate, and retail trade, apart from the small-scale sector. Government should allow more investment into the country under automatic route. Reforms like bringing more sectors under the automatic route, increasing the FDI cap and simplifying the procedural delays has to be initiated. There is need to improve SEZs in terms of their size, road and port connectivity, assured power supply and decentralized decision-making.

- Geographical disparities of FDI should be removed: The issues of geographical disparities of FDI in India need to address on priority. Many states are making serious efforts to simplify regulations for setting up and operating the industrial units. However, efforts by many state governments are
still not encouraging. Even the state like West Bengal which was once called Manchester of India attracts only 1% of FDI inflow in the country. West Bengal, Bihar, Jharkhand, Chhattisgarh are endowed with rich minerals but due to lack of proper initiatives by governments of these states, they fail to attract FDI.

- Promote Greenfield projects: India’s volume of FDI has increased largely due to Merger and Acquisitions (M&As) rather than large Greenfields projects. M&A’s not necessarily imply infusion of new capital into a country if it is through reinvested earnings and intra company loans. Business friendly environment must be created on priority to attract large Greenfields projects. Regulations should be simplified so that realization ratio is improved (Percentage of FDI approvals to actual flows). To maximize the benefits of FDI persistently, India should also focus on developing human capital and technology.

- Develop debt market: India has a well developed equity market but does not have a well developed debt market. Steps should be taken to improve the depth and liquidity of debt market as many companies may prefer leveraged investment rather than investing their own cash. Therefore it is said that countries with well-developed financial markets tend to benefits significantly from FDI inflows.

- Education sector should be opened to FDI: India has a huge pool of working population. However, due to poor quality primary education and higher education, there is still an acute shortage of talent. FDI in Education Sector is lesser than one percent.

- By giving the status of primary and higher education in the country, FDI in this sector must be encouraged. However, appropriate measure must be taken to ensure quality education. The issues of commercialization of education, regional gap and structural gap have to be addressed on priority.
• Strengthen research and development in the country: India should consciously work towards attracting greater FDI into R&D as a means of strengthening the country’s technological prowess and competitiveness.

• FDI into actual disbursement is quite low. It is also suggested that the government while pursuing prudent policies must also exercise strict control over inefficient bureaucracy, red-tapism, and the rampant corruption, so that investor’s confidence can be maintained for attracting more FDI inflows to India. Last but not least, the study suggests that the government ensures FDI quality rather than its magnitude. Indeed, India needs a business environment which is conducive to the needs of business. As foreign investors don’t look for fiscal concessions or special incentives but they are more of a mind in having access to a consolidated document that specified official procedures, rules and regulations, clearance, and opportunities in India. In fact, this can be achieved only if India implements its second generation reforms in totality and in right direction. Then no doubt the third generation economic reforms make India not only favorable FDI destination in the world but also set an example to the rest of the world by achieving what is predicted by Goldman Sachs23,24 (in 2003, 2007) that from 2007 to 2020, India’s GDP per capita in US$ terms will quadruple and the Indian economy will overtake France and Italy by 2020, Germany, UK and Russia by 2025, Japan by 2035 and US by 2043.
CONCLUSION

Finally, it may be concluded that developing countries has make their presence felt in the economics of developed nations by receiving a descent amount of FDI in the last three decades. Although India is not the most preferred destination of global FDI, but there has been a generous flow of FDI in India since 1991. It has become the 2nd fastest growing economy of the world. India has substantially increased its list of source countries in the post – liberalisation era. India has signed a number of bilateral and multilateral trade agreements with developed and developing nations. India as the founding member of GATT, WTO, a signatory member of SAFTA and a member of MIGA is making its presence felt in the economic landscape of globalised economies. The economic reform process started in 1991 helps in creating a conducive and healthy atmosphere for foreign investors and thus, resulting in substantial amount of FDI inflows in the country. No doubt, FDI plays a crucial role in enhancing the economic growth and development of the country. Moreover, FDI as a strategic component of investment is needed by India for achieving the objectives of its second generation of economic reforms and maintaining this pace of growth and development of the economy.

FDI in India has a significant role in the economic growth and development of India. FDI in India to various sectors can attain sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries. The inflow of FDI in service sectors and construction and development sector, from April, 2000 to June, 2015 attained substantial sustained economic growth and development through creation of jobs in India.

Computer, Software & Hardware and Drugs & Pharmaceuticals sector were the other sectors to which attention was shown by Foreign Direct Investors (FDI). The other sectors in Indian economy the Foreign Direct Investors interest was, in fact has been quite poor.

FDI has helped to raise the output, productivity and employment in some sectors especially in service sector. Indian service sector is generating the proper employment options for skilled worker with high perks. On the other
side banking and insurance sector help in providing the strength to the Indian economic condition and develop the foreign exchange system in country.

✓ So, we can conclude that FDI is always helps to create employment in the country and also support the small scale industries also and helps country to put an impression on the world wide level through liberalization and globalization.

✓ Institutional infrastructure and development are the main determinants of FDI inflows in the European transition economies. Institutional environment (comprising both institutional strategies and policies of organizations relating to these institutions) plays critical role in reducing the transaction costs of both domestic and cross border business activity.

✓ It is found that bigger diversity of types of FDI lead to more diverse types of spillovers and skill transfers which proves more favourable for the host economy.

✓ It is also found that apart from market size, exports, infrastructure facilities, institutions, source and destination countries, the concept of neighborhood and extended neighborhood is also gaining importance especially in Europe, China and India.

✓ In industrial countries high labour costs encourage outflows and discourage inflows of FDI. The principle determinants of FDI in these countries are IT-related investments, trade and cross-border mergers and acquisitions.

✓ Studies which underlie the effects of FDI on the host countries economic growth shows that FDI enhance economic growth in developing economies but not in developed economies.

✓ It is found that in developing economies FDI and economic growth are mutually supporting. In other words economic growth increases the size of the host country market and strengthens the incentives for market seeking FDI. It is also observed that bidirectional causality exist between FDI and economic growth i.e. growth in GDP attracts FDI and FDI also contributes to an increase in output.

✓ The main determinants of FDI in developing countries are inflation, infrastructural facilities, debts, burden, exchange rate, FDI spillovers, stable political environment etc.
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✓ It is found that firms in cluster gain significantly from FDI in their region, within industry and across other industries in the region.

✓ It is also observed that FDI have both short – run and long – run effect on the economy.

RECOMMENDATION

✓ We recommend that the retail sector is granted 'industry status' as soon as possible so that a legislative framework can be put in place for the control and management of the sector and its day to day operation.

✓ The government should revoke the recent Press Notes that relate to permitting cascading sub companies, as these are only serving to provide a loop-hole for back-door entry by foreign retailers and are not promoting transparency within the policy.

✓ Labour Laws need to be reviewed to be more in line with the requirements of retail sector employment.

✓ Investment should be made by the government to improve the efficiency of the manufacturing sector so that this sector can grow and provide more employment opportunities going forward.

✓ City Planning needs to be addressed so that development is in such a way that it protects the traditional trader areas and does not clutter the already densely populated city centers.

✓ Certain sensitive products should be restricted from foreign retailing, so as to protect the traditional craftsmen and unorganised traders. The products to be restricted needs to be given thought and researched before any decisions are made.

✓ The government should impose local employment quotas on foreign retailers, firstly to reduce the effects of any potential labour displacement, and secondly to encourage foreign retailers to provide training, skills and development to local people who without it would not be able to transfer to the 'organised' retail sector or back-end services.
✓ Rules on re-patriation of foreign profits should be revised, to discourage (and restrict) 100% of profits from leaving India. Conditions imposed on requiring foreign retailers to invest a minimum amount in infrastructure and supply chain capabilities would be beneficial.

✓ Consider providing Tax relief and/or subsidy by way of low rate loans to domestic retailers to provide support.

✓ Implement a 'phased introduction' of FDI to the retail sector, say over 2-4 years, so as to provide gradual adjustment for the domestic players and to allow fine-tuning and adjustment of policy if issues arise.

✓ The government should reform price control policies to ensure that foreign retailers cannot sell below a minimum price, rather than the current Maximum Retail Price (MRP).

✓ Conditions of minimum sourcing from domestic agricultural and manufacturing sectors should be imposed, so as to prevent the creation of a 'China Pipeline'.

✓ Bureaucracy and formalities should be reduced by updating related legislation, for example, reducing the number of licences required by businesses to open a store. This should assist the domestic players in expanding and will help to streamline the efficiency of the sector.

✓ Geographical restrictions for foreign investors need to be considered so as to reduce the impact, or prevent the fast expansion of retailers into rural areas. Special Economic Zones need to be assessed with further research, to review their advantages and disadvantages to both India as a country, and to the foreign players.

✓ Other related regulations such as copyright law, need to be updated and brought in to line with the needs of the future Indian retail sector

✓ Real Estate Regulations need to be considered for reform so as to facilitate access to land and property for use by the retail sector, and to provide equal access to space for both foreign and domestic players.
The policy of allowing 51 per cent FDI in single brand retail assumes that Indian consumers are brand conscious and the policy would facilitate entry of more foreign brands for the benefit of Indian consumers. Moreover, there should be synergies between policy decisions across different ministries. If the policy decision is to give Indian consumers access to more foreign brands, then import duties on them should be lower. More importantly, the retail policy needs to focus on how it can benefit the majority of the Indian consumers (especially the low and middle-income consumers) by giving them access to branded products at lower prices. Multi-brand foreign retailers such as Wal-Mart and Tesco, who have low margins and offer low price, cater to the mass market. However, the present policy does not allow them to service the Indian consumer directly. This has led to a reduction in consumer welfare.

This research has shown that an overwhelming majority (91%) believe that FDI in retail will bring benefits in the form of further investment, skills and consumer choice.

It was clear from the literature review that India is a very unique market and has an extremely dominant 'unorganized' sector that is concerned about the introduction of FDI in the retailing sector.

The literature review showed that current investment policy is already quite liberal towards FDI in many sectors, with only a few sectors (predominantly service sectors such as retailing) that are restricted. Retailing is allowed via a number of methods such as franchising/joint venture, but 100% equity is only allowed in Wholesale Cash & Carry, and 51% in single-brand retailing. No multi-brand retailing is allowed by foreign investors.

Retail as a 'Forced Employment' – the sector is one of the primary forms of 'disguised employment / under employment' which acts as a shock absorber for the present social system, soaking up unemployed people who have little alternative but to try and make some kind of living.

The reforms that were most commonly supported were, subsidies in the form of low-rate loans, provision of equal access to organized wholesale & supply chain infrastructure and tax relief for domestic retailers.
This study finds that, after liberalization there is a complexity of overlapping rules in the Indian capital market that should be eliminated as far as possible because this is one of the hurdles of economic growth.

The impact of the reforms in India on the policy environment for Foreign Direct Investment presents a mixed picture. The industrial reforms have gone far, though they need to be supplemented by more infrastructure reforms, which are a critical missing link.

There are speculations of a wider range on the expectations of foreign institutional investors. It is required to understand when they withdraw their funds and when they pump in more money. Higher Sensex indices and high price earnings ratio are the country level factors attracting more foreign investment in India. This perception has to be changed by introducing some restriction on outflow.

The survey clearly reveals that even higher income Indian consumers spread their expenditure on different product categories across branded and non-branded products and different retail formats. There is considerable heterogeneity in consumers’ tastes, product choices and shopping behaviour. Consumers’ shopping behaviour in a large country like India is too complex to justify the simple assumption that they would always prefer foreign retailers to domestic ones if FDI is allowed in retailing. They are more likely to patronise different formats for different needs. Moreover, evidence from other countries shows that all formats can survive and coexist as long as they differentiate and position themselves to serve different needs.

The surveys found that a majority of the respondents is willing to experiment with different brands and want more foreign brands to enter the Indian market. They are in favour of allowing FDI in multi-brand retail. This makes a strong case for allowing FDI in multi-brand retail. Apart from providing Indian consumers more choices in the form of reputed, good quality brands, liberalising multi-brand retailing in India is likely to facilitate much greater inflows of investments. This, in turn, will lead to the development of more efficient and lower cost supply chains, resulting in better quality as well as
lower-priced products for Indian consumers. This will increase consumer spending, which in turn, will drive growth in all sectors of the economy in a virtuous cycle. Moreover, the present restriction of FDI in multi-brand retail is not really an entry ban. Several foreign brands and retailers have established a presence in India through other entry routes. However, by not allowing direct FDI in multi-brand retail, the country is losing investment inflows while Indian consumers are left with limited choice. While some Indians are traditional retailers, all Indians are consumers. The benefit of the majority of the population has to be taken into account in policy-making.

 ✓ In the past, Indian consumers have benefitted from liberalisation. An example of this is the liberalisation in the telecommunication sector, which has led to more access, better quality, better services and lower prices for consumers. The entry of foreign players in the automobile sector has made the domestic industry globally competitive and even middle and low-income consumers in India can now afford to own cars. The retail FDI policy also should be examined in the light of its impact on consumers.

 ✓ Indian consumers are protected under the Consumer Protection Act, 1986, and the Consumer Protection (Amendment) Act 2002. This Act is outdated. The retail sector is evolving and many new retail formats have developed. These are not explicitly covered under the present Act. The process of registering a complaint and handling of legal cases in India is lengthy. In addition, there is no provision for protecting consumers against predatory pricing. Hence, the Act needs to be modified to ensure consumer protection and welfare.

 ✓ This study has found that a lot of steps taken by the government of India, especially in , those steps has increase the confidence of foreign investors for investment in retail sector in India which is helpful in economic growth of the country.