

# Foreign direct investment in retail

[Economics](#), [Macroeconomics](#)



Foreign Direct Investment in Retail | The Retail Industry is the sector of economy which is consisted of individuals, stores, commercial complexes, agencies, companies, and organizations, etc., involved in the business of selling or merchandizing diverse finished products or goods to the end-user consumers directly and indirectly. Goods and products of the retail industry or sector, are the finished final objects/products of all sectors of commerce and economy of a country. The Retail sector of India is vast, and has huge potential for growth and development, as the majority of its constituents are un-organized. The retail sector of India handles about \$250 billion every year, and is expected by veteran economists to reach to \$660 billion by the year 2015. The business in the organized retail sector of India, is to grow most and faster at the rate of 15-20% every year, and can reach the level of \$100 billion by the year 2015. Here, it is noteworthy that the retail sector of India contributes about 15% to the national GDP, and employs a massive workforce of it, after the agriculture sector. India's growing economy with a rate of approximately 8% per year, makes its retail sector highly fertile and profitable to the foreign investors of all sectors of commerce and economy, of all over the world. Global Jurix, a full-fledged legal organization prominent worldwide, provides all-encompassing services and advice for most lucrative and secured fdi in indian retail sector. FDI in Retail India AT Kearney (a globally famous international management consultancy) recognized India as the second most alluring and thriving retail destination of the world, among other thirty growing and emerging markets. At present, other profitable retail destinations of the world are China and Dubai of Asia. Diverse foreign direct investment in indian retail is greatly cherished by most of the major and

leading retailers of USA and European countries, including Walmart (USA), Tesco (UK), Metro (Germany), and Carrefour (France). Liberalization of trade policy and loosening of barriers and restrictions to the foreign investment in the retail sector of India, have collectively made the fdi in retail sector quite easy and smooth. Our services are easily and economically available for the following ways of fdi in indian retail. The fdi in india's retail business can be made through any of the following routes: \* Joint Ventures \* Franchising \* Sourcing of Supplies from small-scale sector \* Cash and Carry Operations \* Non-Store Formats \* | FDI in retail is an economic reform, which would allow global chains like Wal-Mart Stores Inc and Carrefour to own up to 51 percent of retail ventures. The policy would let foreign retailers own up to 51 percent of supermarkets and 100 percent of single-brand stores. The policy doesn't require parliamentary approval, but foreign retailers must get approval from state governments where stores will be located. The government, as a measure of protection, has said foreign retailers would have to source 30 percent of their goods from small industries. A Citi report says \$15-20 billion in FDI could flow into the country over the next 10 years as a result of FDI in multi-brand retail. The report also says the move would help enhance the share of organised players in the overall retail sector, which currently account for about six per cent of India's \$470-billion retail market Multi-brand retail in India is largely in the unorganised sector dominated by neighbourhood kirana stores and there is a concern among political parties and traders that these stores would be affected by the entry of global retailers. India's stellar economic growth is slowing, the rupee has skidded to record lows and inflation is stuck close to a double-digit clip. Faced with this

predicament, Prime Minister Manmohan Singh seems to have weighed the benefits of opening a \$450 billion market to foreign investment. Kaushik Basu, one of Singh's close advisers, says allowing global chains to open their first stores in India would be one of the most effective ways to help the country deal with food inflation, which stands close to 10 percent. But the UPA seems to have misjudged the political mood on this reform decision. The Trinamool Congress and the DMK, allies which give the UPA government a parliamentary majority, have opposed FDI in retail. The opposition, of course, has united to reject the idea and it has stalled Parliament. The government failed to convince the opposition, and even some allies, on the reform. " The government has implemented the policy of FDI in retail after lobbying of companies in the U. S. and other countries. We are totally against this," said BJP leader Murli Manohar Joshi after an all-party meeting on Tuesday. Foreign direct investment (FDI) is direct investment into production in a country by a company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment is done for many reasons including to take advantage of cheaper wages, and/or for special investment privileges such as tax exemptions offered by the country as an incentive to gain tariff-free access to the markets of the country or the region. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds. As a part of the national accounts of a country, and in regard to the national income equation  $Y = C + I + G + (X - M)$ , I is investment plus foreign investment, FDI refers to the net inflows of investment (inflow minus outflow) to acquire a

lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor.[1] It is the sum of equity capital, other long-term capital, and short-term capital as shown the balance of payments. It usually involves participation in management, joint-venture, transfer of technology and expertise. There are two types of FDI: inward and outward, resulting in a net FDI inflow (positive or negative) and " stock of foreign direct investment", which is the cumulative number for a given period. Direct investment excludes investment through purchase of shares.[2] FDI is one example of international factor movements. Types 1. Horizontal FDI arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI.[3] 2. Platform FDI 3. Vertical FDI takes place when a firm through FDI moves upstream or downstream in different value chains i. e., when firms perform value-adding activities stage by stage in a vertical fashion in a host country.[3] Horizontal FDI decreases international trade as the product of them is usually aimed at host country; the two other types generally act as a stimulus for it. [edit] Methods The foreign direct investor may acquire voting power of an enterprise in an economy through any of the following methods: \* by incorporating a wholly owned subsidiary or company \* by acquiring shares in an associated enterprise \* through a merger or an acquisition of an unrelated enterprise \* participating in an equity joint venture with another investor or enterprise Foreign direct investment incentives may take the following forms: \* low corporate tax and individual income tax rates \* tax holidays \* other types of tax concessions \* preferential tariffs \* special economic zones \* EPZ — Export Processing

Zones \* Bonded Warehouses \* Maquiladoras \* investment financial subsidies \* soft loan or loan guarantees \* free land or land subsidies \* relocation & expatriation \* infrastructure subsidies \* R&D support \* derogation from regulations (usually for very large projects) Country attractiveness There are multiple factors determining host country attractiveness in the eyes of large foreign direct institutional investors, notably pension funds and sovereign wealth funds. Research conducted by the World Pensions Council (WPC) suggests that perceived legal/political stability over time and medium-term economic growth dynamics constitute the two main determinants[4] Some development economists believe that a sizeable part of Western Europe has now fallen behind the most dynamic amongst Asia's emerging nations, notably because the latter adopted policies more propitious to long-term investments: " Successful countries such as Singapore, Indonesia and South Korea still remember the harsh adjustment mechanisms imposed abruptly upon them by the IMF and World Bank during the 1997-1998 ' Asian Crisis' [...] What they have achieved in the past 10 years is all the more remarkable: they have quietly abandoned the " Washington consensus" [the dominant Neoclassical perspective] by investing massively in infrastructure projects [...]: this pragmatic approach proved to be very successful. "[5]

Foreign direct investment by country | | Global overview of foreign direct investment The United Nations Conference on Trade and Development said that there was no significant growth of global FDI in 2010. In 2011 was \$1, 524 billion, in 2010 was \$1, 309 billion and in 2009 was \$1, 114 billion. The figure was 25 percent below the pre-crisis average between 2005 and 2007. [6] Foreign direct investment in the United States Broadly speaking, the U. S.

has a fundamentally open economy and very small barriers to foreign direct investment.[7] The United States is the world's largest recipient of FDI. U. S. FDI totaled \$194 billion in 2010. 84% of FDI in the U. S. in 2010 came from or through eight countries: Switzerland, the United Kingdom, Japan, France, Germany, Luxembourg, the Netherlands, and Canada.[8] Research indicates that foreigners hold greater shares of their investment portfolios in the United States if their own countries have less developed financial markets, an effect whose magnitude decreases with income per capita. Countries with fewer capital controls and greater trade with the United States also invest more in U. S. equity and bond markets.[9] White House data reported in June 2011 found that a total of 5. 7 million workers were employed at facilities highly dependent on foreign direct investors. Thus, about 13% of the American manufacturing workforce depended on such investments. The average pay of said jobs was found as around \$70, 000 per worker, over 30% higher than the average pay across the entire U. S. workforce.[7] President Barack Obama has said, " In a global economy, the United States faces increasing competition for the jobs and industries of the future. Taking steps to ensure that we remain the destination of choice for investors around the world will help us win that competition and bring prosperity to our people." [7] Foreign direct investment in India Starting from a baseline of less than \$1 billion in 1990, a recent UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010—2012. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, US and UK were

among the leading sources of FDI. According to Ernst & Young, FDI in India in 2010 was \$44.8 billion and in 2011 experienced an increase of 13% to \$50.8 billion.[13] India has seen an eightfold increase in its FDI in March 2012.

[14] India disallowed overseas corporate bodies (OCB) to invest in India.[15]

2012 FDI reforms On 14 September 2012, Government of India allowed FDI in aviation up to 49%, in the broadcast sector up to 74%, in multi-brand retail up to 51% and in single-brand retail up to 100%.[16] The choice of allowing FDI in multi-brand retail up to 51% has been left to each state. In its supply chain sector, the government of India had already approved 100% FDI for developing cold chain. This allows non-Indians to now invest with full ownership in India's burgeoning demand for efficient food supply systems.

[17] The need to reduce waste in fresh food and to feed the aspiring demand of India's fast developing population has made the cold supply chain a very exciting investment proposition. Foreign investment is announced by the government of India as FEMA (Foreign Exchange Management Act). It was introduced by Prime Minister Manmohan Singh when he was finance minister (1991) Foreign direct investment and the developing world A recent meta-analysis of the effects of foreign direct investment on local firms in developing and transition countries suggest that foreign investment robustly increases local productivity growth.[18] The Commitment to Development Index ranks the "development-friendliness" of rich country investment policies. Government argument \* Huge investments in the retail sector will see gainful employment opportunities in agro-processing, sorting, marketing, logistics management and front-end retail. \* Chemical Plants Looking For Used Processing Plants? Find Them Here! 30 Years Experience www. IPPE.



com \* India Coal Sector NewsDaily India & coal mining update. Price, trading, & mining data. www. coalweek. com \* At least 10 million jobs will be created in the next three years in the retail sector. \* FDI in retail will help farmers secure remunerative prices by eliminating exploitative middlemen. \* Foreign retail majors will ensure supply chain efficiencies. \* Policy mandates a minimum investment of \$100 million with at least half the amount to be invested in back-end infrastructure, including cold chains, refrigeration, transportation, packing, sorting and processing. This is expected to considerably reduce post-harvest losses. \*This will have a salutary impact on food inflation from efficiencies in supply chain. This is also because food, which perishes due to inadequate infrastructure, will not be wasted. \* Sourcing of a minimum of 30% from Indian micro and small industry is mandatory. This will provide the scales to encourage domestic value addition and manufacturing, thereby creating a multiplier effect for employment, technology upgradation and income generation. \* A strong legal framework in the form of the Competition Commission is available to deal with any anti-competitive practices, including predatory pricing. \* There has been impressive growth in retail and wholesale trade after China approved 100% FDI in retail. Thailand has experienced tremendous growth in the agro-processing industry. \* In Indonesia, even after several years of emergence of supermarkets, 90% of fresh food and 70% of all food is still controlled by traditional retailers. \* In any case, organized retail through Indian corporates is permissible. Experience of the last decade shows small retailers have flourished in harmony with large outlets. Opposition's argument \* Move will lead to large-scale job losses. International experience shows supermarkets

invariably displace small retailers. Small retail has virtually been wiped out in developed countries like the US and in Europe. South East Asian countries had to impose stringent zoning and licensing regulations to restrict growth of supermarkets after small retailers were getting displaced. India has the highest shopping density in the world with 11 shops per 1, 000 people. It has 1. 2 crore shops employing over 4 crore people; 95% of these are small shops run by self-employed people \* Global retail giants will resort to predatory pricing to create monopoly/oligopoly. This can result in essentials, including food supplies, being controlled by foreign organizations. \* Super Market Shelving Ready Stock. Customization Possible Design and Layout service for Free [www. retaildetailz. com](http://www.retaildetailz.com) \* Government Job Vacancies Find 1000's of Jobs in your City. Connect with Employers. Apply Now! [Quikr. com/Government-Jobs](http://Quikr.com/Government-Jobs) \* Fragmented markets give larger options to consumers. Consolidated markets make the consumer captive. Allowing foreign players with deep pockets leads to consolidation. International retail does not create additional markets, it merely displaces existing markets. \* Jobs in the manufacturing sector will be lost because structured international retail makes purchases internationally and not from domestic sources. This has been the experience of most countries which have allowed FDI in retail. \* Argument that only foreign players can create the supply chain for farm produce is bogus. International retail players have no role in building roads or generating power. They are only required to create storage facilities and cold chains. This could be done by governments in India. \* Comparison between India and China is misplaced. China is predominantly a manufacturing economy. It's the largest supplier to Wal-Mart and other

international majors. It obviously cannot say no to these chains opening stores in China when it is a global supplier to them. India in contrast will lose both manufacturing and services jobs. Times View In principle, governments should not prevent anybody, Indian or foreign, from setting up any business unless there are very good reasons to do so. Hence, unless it can be shown that FDI in retail will do more harm than good for the economy, it should be allowed. A major argument given by opponents of FDI in retail is that there will be major job losses. Frankly, the jury is out on whether this is the case or not, with different studies claiming different findings. Big retail chains are actually going to hire a lot of people. So, in the short run, there will be a spurt in jobs. Eventually, there's likely to be a redistribution of jobs with some drying up (like that of middlemen) and some new ones sprouting up. Fears of small shopkeepers getting displaced are vastly exaggerated. When domestic majors were allowed to invest in retail, both supermarket chains and neighbourhood pop-and-mom stores coexisted. It's not going to be any different when FDI in retail is allowed. Who, after all, will give home delivery? The local kirana. Why would anyone shun them? If anything, the entry of retail big boys is likely to hot up competition, giving consumers a better deal, both in prices and choices. Mega retail chains need to keep price points low and attractive - that's the USP of their business. This is done by smart procurement and inventory management: Good practices from which Indian retail can also learn. The argument that farmers will suffer once global retail has developed a virtual monopoly is also weak. To begin with, it's very unlikely that global retail will ever become monopolies. Stores like Wal-Mart or Tesco are by definition few, on the outskirts of cities (to keep real estate

costs low), and can't intrude into the territory of local kiranas. So, how will they gobble up the local guy? Secondly, it can't be anyone's case that farmers are getting a good deal right now. The fact is that farmers barely subsist while middlemen take the cream. Let's not get dreamy about this unequal relationship.