

# Foreign Direct Investment in India- The Opportunities and Challenges

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**Abstract:**

*The spectacular and unprecedented growth of FDI in the global economic landscape over the last two decades has made it an integral part of the development strategy of both the developed and developing nations. It acts as a major catalyst in the development of a country through up-gradation of technology, managerial skills and capabilities in various sectors. Rise in purchasing power, growing consumerism and brand proliferation has led to retail modernization in India. The following article talks about FDI or Foreign Direct Investment in India. Many people are in favour of FDI & many people are against it. But after taking into consideration all the arguments in favour & against FDI one can safely conclude that it has more merits than demerits attached to it & the Indian government must go for it if it wants India to progress further & become a super power.*

Keywords: Spectacular, unprecedented , growth, FDI.

**Introduction**

In early nineties, Indian economy faced a severe Balance of payment crisis which also affects export. So, there was a serious threat to economy. It was in the light of such adverse situations that the policy makers decided to adopt a more liberal and global approaches thereby, opening its door to FDI inflows in order to restore the confidence of foreign investors. FDI provides a situation where in both the host and the home nations derive some benefit. FDI tends to act as a catalyst for underlying strengths and weaknesses in the host economy, Bringing to the fore both its advantages and its problems.

**Significant:**

By making direct investments the enterprises typically have a significant degree of influence and control over the company into which the investment is made. FDI is a tool for economic growth through its strengthening of domestic capital. FDI also plays a crucial role in the advancement of technology, skills and managerial capabilities in different sectors of the economy. The study tries to find out how FDI seen as an important economic catalyst of Indian economic growth by stimulating domestic investment, increasing human capital formation and by facilitating the technology transfers. In fact, FDI provides a win – win situation to both the host and the home countries. The “home” countries want to take the advantage of the vast markets opened by industrial growth. On the other hand the “host” countries want to acquire technological and managerial skills and supplement domestic savings and foreign exchange. Moreover, in order to overcome the deficiencies of all kinds of resources viz. financial, capital, entrepreneurship, technological know- how, skills and practices, access to markets-abroad - in their economic development, developing nations accepted FDI as a sole visible panacea for all their scarcities.

## Research Question and Methodology:

The main research questions of this study are:

1. To analyse the benefits of FDI for an emerging market like India.
2. To determine the major problems of FDI.

The entire research work has been done for the successful answering of the above mentioned research question. The whole paper is based on descriptive arguments, statistical data, case studies, comparative study and analytical logic developed through the understandings from various research papers, reports, books, journals, newspapers and online data bases.

## Conceptual Framework:

**FDI** means foreign direct investment. According to IMF, FDI is the category of international investment that reflects the objective of a resident entity in one obtaining a 'lasting interest' and control in an enterprise resident in another economy. Few academicians and researchers define FDI as an investment by foreign corporation in any country. A common example of foreign direct investment is a situation in which a foreign company comes into a country to build or buy a factory. Afterwards they initiate the operation in respective countries by investing further through recruiting HR and also initiating manufacturing or distribution. From the definition itself the sky-high importance of FDI is clearly observable.

## Merits of FDI

FDI has lot to advantages to its favour which can be summarized as below –

- 1. Huge Market Size and a Fast Developing Economy-** Currently the total population of India is about 1.2 billion. This huge population base automatically makes a huge market for the business operators to capture and also a major part of it is still can be considered as un-served or not yet been penetrated.
- 2. Benefits to national economies-** FDI always brings certain benefits to national economies. It can contribute to Gross Domestic Product, Gross Fixed Capital Formation and balance of payments. There have been empirical studies indicating a positive link between higher GDP and FDI inflows. FDI can also contribute toward debt servicing repayments, stimulate export markets and produce foreign exchange revenue.
- 3. More consumer savings-** One of the biggest advantage of FDI is that it will increase the savings of Indian consumer as he will get good quality products at much cheaper rates. Consumer savings are likely to increase 5 to 10% from FDI.
- 4. Availability of Diversified Resources and Cheap Labour Force-**These are also coupled with availability of very cheap labour forces at almost every parts of the country.
- 5. Higher remuneration for farmers-** Another advantage of FDI is that it will help a lot in improving the miserable condition of Indian farmers who are committing suicides on daily basis because of lesser return from their agricultural produce. But FDI will certain help a lot in improving their conditions as the farmers are going to get 10 to 30 %higher remuneration because of FDI.
- 6. Increasing Improvement of Infrastructure-** The Indian government has taken huge projects in transportation and energy sectors to improve the case. The projects for developing road transport is worth of

\$90 billion, for rail it has undertaken several projects each worth of \$20 million and for ports and airports the value of development projects is around \$ 80 billion. These huge investments are changing the investment climate in the country and investors will benefit hugely by that

**7. Increase in Government revenue-**Government revenues are certainly going to increase a lot because of FDI. Government revenues will increase by 25 to 30 billion dollars which is a really big amount.

**8. Capital Infusion-** This would provide an opportunity for cash-deficient domestic retailers to bridge the gap between capital required and raised. In fact FDI is one of the major sources of investments for a developing country like India wherein it expects investments from Multinational companies to improve the countries growth rate, create jobs, share their expertise, back-end infrastructure and research and development in the host country.

**9. Boost Healthy Competition and check inflation-** Supporters of FDI argue that entry of the many multinational corporations will obviously promise intensive competition between the different companies offering their brands in a particular product market and this will result in availability of many varieties, reduced prices, and convenient distribution of the marketing offers.

**10. Public Private Partnerships-** Another significant advantage foreign investors experience in India today is the opportunities of PPP or Public private Partnership in different important sectors like energy, transportation, mining, oil industry etc.

**11. Improvement in Supply Chain-** Improvement of supply chain/ distribution efficiencies, coupled with capacity building and introduction of modern technology will help arrest wastages.

**12. Improvement in Customer Satisfaction-** Consumers in the organized retail will have the opportunity to choose a numbers of internationally famous brands with pleasant shopping environment, huge space for product display, maintenance of hygiene and better customer care.

**13. Improved technology and logistics-** Improved technology in the sphere of processing, grading, handling and packaging of goods and further technical developments in areas like electronic weighing, billing, barcode scanning etc. could be a direct consequence of foreign companies opening retail shops in India.

**14. Benefits for the Farmers-** Presumably, with the onset of multi-brand retail, the food and packaging industry will also get an impetus. Though India is the second largest producer of fruits and vegetables, it has a very limited integrated cold-chain infrastructure. Lack of adequate storage facilities causes heavy losses to farmers, in terms of wastage in quality and quantity of produce in general, and of fruits and vegetables in particular. Also, farmers can benefit with the “farm-to fork” ventures with retailers which helps (i) to cut down intermediaries ; (ii) give better prices to farmers, and (iii) provide stability and economics of scale which will benefit, in the ultimate analysis, both the farmers and consumers.

**15. Creation of More And Better Employment Opportunities-** The entry of foreign companies into Indian Retailing will not only create many employment opportunities but, will also ensure quality in them. FDI is certainly going to increase the employment opportunities in India by providing around 3 to 4 million new jobs.

**16. Effect on Consumers-** With liberalization, economic growth and changes in Indian consumers' demographic and economic profile and their shopping behaviour, the retail sector is undergoing changes. At present, foreign retailers operate in India through both store and non-store formats. In terms of the shopping behaviour of Indian consumers across different retail outlets, traditional outlets are preferred as consumers can bargain while modern outlets are preferred because they link entertainment with shopping. Those who purchase at modern outlets have reported better product quality, lower prices, one-stop shopping, choice of more brands and products, better shopping experiences with family and fresh stocks as some of the reasons for their choice of outlet.

**17. IT Revolution and English Literacy-** Today the modern India considered being one of the global leaders in IT. India has developed its IT sectors immensely in last few years and as of today many leading firms outsource their IT tasks in India. Along with that Indian youth are energetic and very capable in English language which is obligatory in modern business conduction.

### **Demerits of FDI**

Although FDI brings with it lot of advantages but it is not free from disadvantages as well. Following are some of its demerits –

**1. Domination of Organized Retailers-** FDI in single-brand retail will strengthen organized retail in the country. These organized retailers will tend to dominate the entire consumer market. It would lead to unfair competition and ultimately result in large-scale exit of domestic retailers, especially the small family managed outlets (local “mom and pop” stores will be compelled to close down.

**2. Shrinking of jobs-** Many critics of FDI are of the view that entry of big foreign chains like Wal-Mart, Carrefour etc. are not going to generate any jobs in reality in India. At best the jobs will move from unorganized sector to organized sector while their number will remain the same or lesser but not more.

**3. Loss of Self Competitive Strength-** The Indian retail sector, particularly organized retail, is still under-developed and in a nascent stage and that, therefore the companies may not be able to compete with big global giants. If the existing firms collaborate with the global biggies they might have to give up at the global front by losing their self competitive strength.

**4. Indirectly Leads to Increase in Real Estate Cost-** It is obvious that the foreign companies which enter into India to open up their malls and stores will certainly look for places in the heart of the cities. There shall be a war for place, initiated among such companies. It will result in increase in the cost of real estate in the cities that will eventually affect the interest of the ordinary people who desire to own their houses within the limit of the cities.

**5. Distortion of Culture:** Though FDI in Indian retail will indirectly or directly contribute for the enhancement of Tourism, Hospitality and few other Industries, the culture of the people in India will slowly be changed. The youth will easily imbibe certain negative aspects of foreign culture and lifestyles and develop inappropriate consumption pattern, not suited to our cultural environment.

**6. Effect on Farmers-** It is being claimed by the advocates of FDI in retail that the elimination of intermediaries and direct procurement by the MNCs would secure better prices for the farmers. The fact is that the giant retailers would have far greater buyer power vis-à-vis the farmers compared to the existing intermediaries. The entry of giant MNCs into agricultural procurement would make the problems worse for the farmers. As against the “mandis” that operate today, where several traders have to compete with each other in order to buy the farmers produce, there will be a single buyer in the case of the MNCs. This will make the farmers dependent on the MNCs and vulnerable to exploitation. On the contrary, the advocates of FDI believe that FDI in retail in the agriculture will help in improving supply chain, infrastructure and ensure economic security for farmers through the elimination of middlemen in the country.

**7. Destruction of Small entrepreneurs-**The biggest fear from FDI is that it is likely to destroy the small entrepreneurs or small kirana shops as they will not be able to withstand the tough competition of big entrepreneurs as these entrepreneurs are going to provide all the goods to the consumers at much lesser prices.

8. Market prices could be manipulated by foreign retail giants

9. Allowing foreign players could destroy the livelihoods of millions of small store owners

10. Local jobs could be at threat since the foreign players could purchase many products from abroad

11. There is no established correlation between advent of FDI and improvement of a country's infrastructure.

#### **CONCLUSION:**

After taking into consideration both pros & cons of FDI one can safely say that although there are certain apprehensions about FDI in India but all these fears are unfounded. Foreign Direct Investment (FDI) as a strategic component of investment is needed by India for its sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries, short and long term project in the field of healthcare, education, research and development (R & D) etc. Government should design the FDI policy such a way where FDI inflow can be utilized as means of increasing domestic production, savings and exports through the equitable distribution among states by providing much freedom to states. In post globalised era, there is a need to realize the positive impact of FDI but after 23 years we are still not able to eliminate poverty, eliminate unemployment and economic inequality. So FDI is not having a significant impact on these areas. And on the other hand we also have two sides of a coin; FDI in retail sector will also have its pros and cons. Like, if we consider its main advantages, we can say that it will bring modern technology, improve rural infrastructure, create a competitive market, enable our farmers to get better prices for their crops, Government will get an additional US\$ 25-30 billion by way of taxes, a solution for food inflation as investments in cold storage chain infrastructure would reduce loss of agricultural produce and provide more options to farmers. And some disadvantages could be that we will be competing with such economies whose interest rates are as low as 4% as compared to our 14% to 16%. Also, we engage millions of uneducated and semi-educated people at various stages of retail business but Tesco and Wal-Mart will only engage smart and educated workforce in small strength, comparatively. Hence we can say that if FDI

in retail is allowed with certain preconditions, it will help boost the Indian economy in the long run and will project a positive image of India regarding its liberalization policies. It will help growth of exports and employment generation. Therefore it must be allowed and at the same time interests of small retailers be also protected.

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