Opportunities of FDI in India and Its Impact on Indian Economy

Poonam Rani[1]* Dr. Rakesh[2]

[1] Research Scholars, Calorx Teachers' University, Ahmedabad, Gujarat

[2] Assistant Professor, Calorx Teachers' University, Ahmedabad, Gujarat

Abstract – India has growth prospect for finance industry with a huge number of consumers and other favorable factors. Opposition to liberalizing FDI in this sector raises concerns about employment losses, unfair competition resulting in large-scale exit of incumbent domestic finance and infant industry arguments to protect the organized domestic finance sector that is at a nascent stage.

In 2012 the Indian Government approved proposal of 100 percent FDI in finance in India subject to certain conditions. Though this proposal is being hailed by global finance giants, which until now have been involved in only wholesale cash and carry distribution in India and have been longing for entry into the Indian finance market for years. The proposal has received vehement opposition from a spectrum of political parties in India, many of them urging for a reversal of the proposal. As a result, the Indian government has stalled the implementation of this proposal which has temporarily washed off the wishes of the global finance players awaiting a bite of the Indian finance market. This paper attempts to study the present status of FDI in finance sector in India and the impacts of FDI on various concerned segments.

Keywords: FDI Organized Finance, Unorganized Finance, Single-Brand Finance, Multi-Brand Finance.

---------------------------------X---------------------------------

INTRODUCTION

Finance consists all activities which are involved in selling goods or services directly to the final consumer for their personal, non-business use via shops, market, door-to-door selling, and mail-order where the buyer intends to consume the product. Finance involves a direct interface with the customer and the coordination of business activities from end to end- right from the concept or design stage of a product or offering, to its delivery and post-delivery service to the customer.

The Indian trading sector, as it has developed over centuries, is very different from that of the developed countries. In the developed countries, products and services normally reach consumers from the manufacturer/producers through two different channels: (a) via independent finance (vertical separation) and (b) directly from the producer (vertical integration). In India, however, the above two modes of operation are not very common. Small and medium enterprises dominate the Indian finance scene. The trading sector is highly fragmented, with a large number of intermediaries. So also, wholesale trade in India is marked by the presence of thousands of small commission agents, stockiest and distributors who operate at a strictly local level. Finance giants like US-based Wal-Mart and French Carrefour are very keen to enter in the segment.

TYPES OF FINANCE IN INDIA

(a) **Single Brand-** Single brand implies that foreign companies would be allowed to sell goods sold internationally under a "single brand", viz., Reebok, Nokia and Adidas. FDI in "Single brand" finance implies that a finance store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to finance its flagship brand in India, those finance outlets could only sell products under the Adidas brand and not the Reebok brand, for which separate permission is required. If granted permission, Adidas could sell products under the Reebok brand in separate outlets.

(b) **Multi Brand-** FDI in Multi Brand finance implies that a finance store with a foreign investment can sell multiple brands under one roof. Opening up FDI in multi-brand finance will mean that global finance including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in

www.ignited.in

the same way as the ubiquitous "kirana" store.

Finance in India is one of the pillars of its economy and accounts for 14 to15% of its GDP[1].The Indian finance market is estimated to be US$ 450 billion and one of the top five finance markets in the world by economic value. India is one of the fastest growing finance markets in the world; with 1.2 billion people[2].India's finance industry is essentially owner managed small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4% of the industry, and these were present only in large urban centers. India's finance and logistics industry employs about 40 million Indians (3.3% of Indian population).

Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand finance, forbidding foreign groups from any ownership in supermarkets, convenience stores or any finance outlets. Even single-brand finance was limited to 51%Ownership and a bureaucratic process.

REVIEW OF LITERATURE

Mukherjee and Patel (2005) carried out a broad based survey on "FDI in the Finance Sector in India", which was sponsored by the Indian Council for Research on International Economic Relations (ICRIER), vehemently recommended the allowing of FDI in the organized format in finance industry over a period of five to six years to boost the speed at which the organized finance sector is growing. The study further bracketed not so severe impact on unorganized finance sector which could lead to their closure.

Kalhan, (2007) unambiguously indicated that there has been a severe impact of malls on the unorganized finance shops operating in the vicinity of malls. The study further stated that Mega Malls are making deep inroads in the sales of finance operating in the unorganized finance sector.

Joseph et. al. (2008) stated that the malls interestingly have no severe impact on the employment scenario but an adverse impact observed on the customers of sample shops However, the study further revealed that Malls have severely impacted the turnover and operating profits of the sample shops. A study of small unorganized finance operating in close proximity to Food World and Subhiksha (CII-KSA Technologies) in Chennai explored that none of them had to close their operations with the advent of these big organized finance formats. The study observed that there was a little impact on the sales and inventory on the selected respondents in the initial period of time; however, it changed gradually.

Gupta (2012) explored in her project "FDI in Indian Finance Sector: Analysis of Competition in Agri-Food Sector" that FDI in finance will not crowded out the small finance but would make them competitive. There will be initial and desirable displacement of middleman involved in supply chain of farm produce but they are likely to be absorbed by increase in food processing sector induced by organized finance.

Chandu (2012) explored that though the small finance are not so apprehensive about big stores, they oppose allowing FDI in finance in India. Allowing FDI policy must be well drafted as it will directly affect the agriculture sector and many other segments of the country. The study of above literature suggests that FDI will have both favorable and unfavorable impacts on Indian finance sector. But a few studies have been reported after the amendment in the provisions related to foreign direct investment in finance which require further research. This paper attempts to study the impact of FDI on various concerned segments.

OBJECTIVES OF THE STUDY

1. To analyze the financial theory in capital market.
2. To study the applications of financial theory in Indian industry.
3. To study the impact of FDI on various concerned segments.

RESEARCH METHODOLOGY

This paper is based on descriptive and comparative research. The secondary data has been used in this research which has been taken from various research articles, publications and related websites.

The Indian finance industry is generally divided into two major segments organized finance and unorganized finance. Organized finance refers to trading activities undertaken by licensed finance, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and finance chains, and also the privately owned large finance businesses. Unorganized finance refers to the traditional formats of low-cost finance, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc. The Indian market comprises of mainly as unorganized finance which contributes more than 90 percent of total finance. However, a increasing trend (table1) has been noticed in finance as organized finance.

Table-1

Share of Organized Finance in India

Year	1999	2002	2005	2009	2010	2013 (Expected)
Total Finance (in billion INR)	7000	8250	10000	18450	19500	24000
Organized Finance(bn)	50	150	350	920	1350	2400
Share Of Organized Finance (%)	0.70%	1.80%	3.50%	5.00%	7.00%	10.00%

(Source:www.neilson.com)

Table-1 depicts that the total output of finance industry in India and share of organized sector in total. It states that the share of organized finance was 0.70% (50bn) in 1999, 1.80% (150bn) in 2002, 3.50% (350bn) in 2005, 5.00% (920bn) in 2009, 7.00% (1350bn) in 2010 and 10.00% (2400bn) in 2013. It shows the increasing trend in organized finance in India which may contribute positively to Indian economy in manifolds.

In other economically developed countries of world the share of organized finance is much higher as compared to share Indian organized finance. The following table shows the share of organized finance in total finance sales in various countries of the world as compared to India.

Table-2

Share of Organized Finance in Different Countries

Country	Total Finance Sales (US $ BN)	Share of Organized Finance (%)
USA	2983	29
Japan	1182	66
China	785	20
United Kingdom	475	80
France	436	80
India	**322**	**4**
Brazil	284	36
Russia	276	33
South Korea	201	15
Indonesia	150	30
Poland	120	20
Thailand	68	40
Malaysia	34	55
Pakistan	67	1
Argentina	53	40
Philippines	51	35
Vietnam	26	22
Hungary	24	30
Czech Republic	34	55

(Source: Finance and Technopak Advisors Pvt. Ltd.)

Table 2 depicts that in the developed economies (i.e U.K. and France), organized finance is in the range of 75-80 per cent of total finance, whereas in developing economies, the unorganized sector dominates the finance business. The share of organized finance varies widely from just one per cent in Pakistan and 4 per cent in India to 36 per cent in Brazil and 55 per cent in Malaysia (Table-2). Modern finance formats, such as hypermarkets, superstores, supermarkets, discount and convenience stores are widely present in the developed world, whereas such forms of finance outlets have only just begun to spread to developing countries in recent years.

In developing countries, the finance business continues to be dominated by family-run neighborhood shops and open markets. As a consequence, wholesalers and distributors who carry products from industrial suppliers and agricultural producers to the independent family-owned shops and open markets remain a critical part of the supply chain in these countries. Recent statistics states that though organized finance in India constituted a meager 4 percent of total finance in 2006, but it is expanding at a much faster pace of 45-50 percent per annum and has quadrupled it share to 10 percent by 2011-12.

POTENTIAL FAVORABLE EFFECTS OF FDI IN INDIAN FINANCE SECTOR

There are many who believe that FDI will act as guardian for the economic development of the farmers and job seekers. It will not happen that big fish will eat small fishes. This is because that in India 95% finance is in the un-organized sector that means only 5% is in organized sector. Local chains like Big Bazar and Spencers haven't dealt a deathblow to small finance. So, the FDI in finance won't affect them either.

The local kirana community is strategic and agile to get wiped off. Their offerings such as home delivery, credit facility and personalized customer relationship management can never be matched by foreign finance players. FDI in finance is certainly a step forward to eliminate the evils of adulteration, shortage in naap tol (weights and measures), unreasonable profit due to large differences between the wholesale price and the printed maximum finance price (MRP) and corruption in saving taxes leading to generate black money. The growth in the finance sector has so far been slower than what was projected, about 5 or 6 years back. Presently FDI has noticed following favorable effects on Indian finance sector:

Partnership opportunity

Indian finance have reason to be happy with foreign direct investment in the finance sector because it is a partnership opportunity that involves a lot of learning that could take them to higher profitability. The central government is planning to have 51% foreign investment; this means the foreign finance need partners for the rest investment to gain market.

High availability of jobs

There will be huge job opportunities in the country (in crores) as there will be opening of malls and store houses. The entry of modern finance will expand the market creating large amount of additional jobs in finance. The job opportunities will vary from ordinary workers to specialized officers. The employment opportunities will be in finance sales, finance floor manager, cold chains, warehousing and logistics. The new jobs will created in front end and back end leading to a positive impact on economy.

The jobs will be for urban as well as rural youth. The jobs will cover educated as well as semi educated males and females. The salaries will grow faster. There will be huge scope of MBA's as they will cherish working with world class chain of finance. They will give professional approach as they are only concerned with business and nothing else. They will allocate some amount of resources towards the training of the people they hire. This has already happened with Bharti Wal-Mart joint venture, which has joined hands with some state governments in opening training centers in Amritsar, Delhi and Bangalore to train local youths for jobs in finance**.**

Better Distribution system

The report shows that 30-35% of India's total production of fruits and vegetables is wasted every year due to inadequate cold storage and transport facilities. Almost half of this wastage can be prevented if fruit and vegetable finance have access to specialized cold storage facilities and refrigerated trucks. The organized finance will bring in efficient practices that will help farmers in the procurement process, reduce wastage with finally efficient storage and will finally cut the losses. The giant finance will help India to have strong storage system with highly developed transportation. Giant finance with decades of experience on how to manage mountains of inventories supply them to key distribution centers and do it all faster, better, cheaper. The arrival of foreign finance will definitely bring in synergies in distribution management practices**.**

Consumer satisfaction

Middle class will be benefited as they are three-fourth of Indian population. The middle class will be benefited because they are newly emerged and swelling. There is arising aspiration for a stylish and luxurious life in this class. There has been shift from necessities to luxurious life. The emergence of large middle class in India and with rising disposable income, spends on branded products are likely to increase.

Knowledge and Technology enhancement

FDI in finance will make way for inflow of knowledge from international experts. There will be drastic finance growth through the development of the finance capability. The advanced technology of foreign players will definitely fasten the growth of Indian Finance sector.

Management educational institute boom

The growth of the organized finance in India will be a 'sunrise' for the management educational institute as their requirement will be increasing. The management colleges or universities role will be increasing for giving finance education to the youth to stay competitive in the liberalized environment.

Healthy competition and Inflation control

With the entry of foreign players in Indian Finance there will be a healthy competition in finance industry which shall put a check on wrong practices like black marketing, hoarding, less weights etc. This will lead to control over infla**tion.**

Availability of Capital

Indian economy has the shortage of capital which results in less investment. This problem can also be solved by allowing FDI in Indian finance industry.

Potential Threats FDI in Indian Finance Sector

Many people are of the view that FDI should not be permitted in Indian finance sector. These people argue against FDI on the ground that new system will have adverse impact on small finance; moreover it will not benefit the real India which is hardworking bread earners, comprising of 80 crore people. There is a threat of low priced goods from China which will have adverse impact on Indian finance. The FDI will generate following threats to the Indian finance sector:

Elimination of Unorganized Finance

The new system will displace the traditional shops and petty finance stops in markets and mohallahs. India has two types of un-organized finance: one the big un-organized finance i.e. the shop of wealthy consumers and the other small un-organized finance i.e. the shop of poor consumers. The latter will remain untouched while the former may be marginally affected. The real India which is hardworking bread earners, comprising of 80 crore people will surely not be benefitted.

Unemployment Generation

In terms of employment in finance sector around 38% in rural areas and around 47% in urban areas depend on finance trade for their livelihood, which will be effected. Around 14 crore people are directly or indirectly earning from the finance sector and if we associate their family members then this number would reach 40 crore. This may in turn render the people engaged there jobless and non-business

oriented. The medium and small finance will surely be effected but not in a big way.

Increased Imports

The world class finance will import with huge quantities of consumer goods from their mother country and elsewhere that are available relatively cheaper to the detriment of the interest of the domestic producers. The proposal has drawbacks as it says that the big finance have to purchase 30% from the small scale industries but they could be anywhere in the world. So the Indian industry will not be benefited.

Loss of Strength of Indian Organized Finance

Some experts say that wherever these big finance stores have gone they have ruined the local finance. Small finance is the thing of the past in developed countries especially in the US & Europe. The small finance are of the view that the central government should help them to become big instead to invite big foreign finance in India. If these things continue, the country's finance sector would be lost. If we take examples of two soft drinks like Coca-cola and Pepsi, we will know that wherever they have gone they have killed the domestic products. They did the same in India. Today we don't hear about the brands like Campa Cola. It has vanished from the market.

Impact of FDI on Various Stakeholders:

The Confederation of Indian Industry (CII)[6] conducted a survey during December 2011 to January 2012 on the impact of FDI on Small and Medium Enterprises (SMEs) based on a large sample size of 250 companies covering different categories of SMEs according to sales turnover. A majority of the SME companies, surveyed have supported the government's decision and the notification allowing 100% FDI in single brand finance and about 52 percent of respondents hope for early implementation of 51% FDI in multi-brand finance. On the question how the SME industry consider entry of MNC finance as a threat or opportunity, majority of respondents (66.7%) see it as an opportunity for their sector while around 21 % of respondents perceive it as a threat. About 12.5 percent of respondents are of the opinion that the decision would have little or no impact on their company. The following Impacts are perceived on various concerned segments:

Effect on Traditional Store

Traditional finance has been established in India for many centuries, and is characterized by small, family-owned operations. Because of this, such businesses are usually very low-margin, are owner-operated, and have mostly negligible real estate and labor costs. Such small shops develop strong networks with local neighborhoods. The informal system of credit adds to their attractiveness. Moreover, low labor costs also allow shops to employ delivery boys, such that consumers may order their grocery list directly on the phone. These advantages are significant, though hard to quantify. In contrast, players in the organized sector have to cover big fixed costs, and yet have to keep prices low enough to be able to compete with the traditional sector. Getting customers to switch their purchasing away from small neighborhood shops and towards large-scale finance may be a major challenge. The experience of large Indian finance such as Big Bazaar shows that it is indeed possible. The oppositions, on the other hand, believe that local kirana shops will not be affected. The kirana stores operate in a different environment catering to a certain set of customers and they will continue to find new ways to retain them

Effect on Farmers

It is being claimed by the advocates of FDI in finance that the elimination of intermediaries and direct procurement by the MNCs would secure better prices for the farmers. The fact is that the giant finance 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 finance in the agriculture will help in improving supply chain, infrastructure and ensure economic security for farmers through the elimination of middlemen in the country

Effect on Consumers

With liberalization, economic growth and changes in Indian consumers" demographic and economic profile and their shopping behavior, the finance sector is undergoing changes. At present, foreign finance operate in India through both store and non-store formats. In terms of the shopping behavior of Indian consumers across different finance 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. On the other hand, proximity to residence, goodwill, credit availability, possibility of bargaining, choice of loose items, convenient timings, home delivery, etc., are some of the benefits of traditional outlets (Joseph and Soundararajan 2009). Consumers are the major beneficiaries of the finance

boom as organized finance are initiating measures such as tracking of consumer behaviour and consumer loyalty programmes to retain their market share (Mukherjee and Patel (2005)). Authors of ICRIER Policy series paper (August, 2011) and various other surveys have pointed out that most consumers are willing to experiment to different brands and so they are in favour of allowing FDI in finance. Apart from providing Indian consumers more choices in the form of reputed, good quality brands, liberalizing multi-brand finance 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

SUGGESTIONS

Many foreign companies have already entered into Indian market through the available modes such as, Franchising and Exporting. They are much eager to change their entry to FDI that would strengthen their operations in India. However, if FDI in finance is liberalized by considering the following suggestions it is expected bring in more of benefits than threats to the country. FDI should be initially allowed in less sensitive sectors and also in the sectors wherein the domestic companies are established strongly. Entry of foreign players must be gradual with social safeguards so that the effects of labor dislocation can be minimized.

Adequate attention should be paid to procuring, staff recruitment, investments in warehouse, cold storage, infrastructure, competition and finance formats so that not only does the money comes in but also it's a win-win situation for the current national financeer as well as “mom and pop” stores who account for 70% of the finance business even after the arrival of national finance from the corporate giants.

The government should take initiatives to improve the manufacturing sector. If the manufacturing is strengthened, the displaced employees of the finance industry could be well accommodated there.

A National Commission should be set up to study the problems of the finance sector which should also evolve a clear set of conditionality on foreign finance on procurement of farm produce, domestically manufactured merchandise and imported goods. This conditionality must state minimum space, size and other details like construction and storage standards.

The Indian Govt. should have well drafted policy to control the affairs of foreign investors. It should take some measures to strengthen the organized Indian finance industry which is in its evolutionary stage.

REFRENCES

1. Anand Dikshit (August 12 2011). "The Uneasy Compromise - Indian Finance". The Wall Street Journal.
2. Majumder, Sanjoy (25 November 2011). "Changing the way Indians shop". BBC News.
3. "Finance in India Unshackling the chain stores". The Economist. 29 May 2008.
4. Sharma, Amol; Sahu, Prasanta (11 January 2012). "India Lifts Some Limits on Foreign Finance". The Wall Street Journal.
5. Ikea shelves Indian finance market move". The Financial Times. 22 January 2012
6. Confederation of Indian Industry (2012): “The Impact of FDI in Finance on SME Sector: A Survey Report”.
7. Basker, Emek (2005b). “Selling a Cheaper Mousetrap: Wal-Mart's Effect on Finance Prices,” Journal of Urban Economics, Vol. 58, No. 2, pp. 203-229
8. Chari, Anusha. and T.C.A. Madhav Raghavan (2011). “Foreign Direct Investment in India‟s Finance Bazaar: Opportunities and Challenges”, March 2011.
9. Joseph, M., N. Soundararajan, M. Gupta and S. Sahu (2008). “Impact of Organized Finance on the Unorganized Sector”, ICRIER, May, 2008.
10. Joseph, M. and Nirupama Soundararajan (2009). “Finance in India: A Critical Assessment”, Academic Foundation, New Delhi.
11. Mukherjee, A. and Nitisha Patel (2005). “FDI in Finance Sector: India”, Academic Foundation, New Delhi.
12. Kalhan, Anuradha (2007). “Impact of Malls on Small Shops and Hawkers,” Economic and Political Weekly, Vol.42, No.22, pp. 2063-66.
13. Kalhan, Anuradha and Martin Franz (2009). “Regulation of Finance: Comparative Experience,”
14. Economic and Political Weekly, Vol.44, No.32, pp.56-64.
15. Kulkarni Keerti, Kulkarni Ramakant and Kulkarni Gururaj A. (2012). “Foreign Direct Investment In Indian Finance Sector: Issues And Implications”, Indian Journal of

Engineering and management Sciences, 2012; Vol. 3(3).

16. McKinsey & Company (2007). "The Bird of Gold": The Rise of India"s Consumer Market", McKinsey Global Institute.

17. Mukherjee, A. D. Satija, T. M. Goyal, M.K. Mantrala and S. Zou (2011). "Impact of the FDI Finance Policy on Indian Consumers and the Way Forward", ICRIER Policy Series Aug, 2011; No. 5.

18. Nesumark, David, Junfu Zhang, and Stephen Ciccarella (2008). "The Effects of Wal-Mart on Local

19. Labor Markets," Journal of Urban Economics, Vol. 63, No. 2, pp. 405-430.

20. Sarma, E.A.S. (2005). "Need for Caution in Finance FDI," Economic and Political Weekly, Vol.40, No.46, pp. 4795-98.

Corresponding Author

Poonam Rani*

Research Scholars, Calorx Teachers' University, Ahmedabad, Gujarat