



RUKMINI DEVI

Institute of Advanced Studies

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Guest lecture on "Foreign Direct Investment"

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| Topic : | Guest lecture on "Foreign Direct Investment-Current retail case-A boon or bane" by Mr. V.K. Chattwal, Chief Manager Punjab National Bank for the students of MBA IV and MBA II |
| Date of event : | January 23, 2012 |
| Aim of the Event | <p>By and large, an FDI policy in developing countries should seek to promote exports, technology and/or jobs. If we consider exports, FDI should be encouraged in areas presently reserved for small-scale industries (SSIs). The key aim of FDI policy is to promote technology, particularly in infrastructure and provide domestic security.</p> <p>The aim of conducting this guest lecture was as follows: To inform students about retail sector in context of FDI and its importance in development of the country</p> |

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| Description of the event | <p>Mr. V.K. Chattwal started the lecture by explaining the meaning of FDI and later on moved to the structure of FDI.</p> <p>He defined FDI as Foreign Direct Investment (FDI) occurring when an investor based in one country (the home country) acquires an asset in other country (the host country) with the intent to manage assets. The foreign direct investment policies are the various rules and regulations that have been laid down by the various countries in order to regulate overseas investment being made in a country.</p> <p>FDI in India is governed by FDI policy of Govt. of India and FEMA 1999. Various alternate modes of market entry were discussed like licensing, exports, franchising etc. but the major focus was on FDI. The need for FDI was felt because of high transportation cost and trade barriers that exist in case of exports and FDI is given more importance over licensing or franchising to protect technological know-how and to retain strategic control.</p> <p>FDI is freely permitted in India through automatic routes and government routes. Following people can invest in India:</p> <ul style="list-style-type: none">▶ A person resident outside India.▶ An entity incorporated outside India.▶ Resident of Pakistan is not allowed. |
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- ▶ Resident of Bangladesh with prior approval of FIPB.

But certain areas are not open to FDI, such as:

- ▶ Business of chit fund
- ▶ Agricultural or plantation activities
- ▶ Real estate business or construction of farm houses

FDI can be made either by issue of shares/convertible debenture/preference shares or by American Depository Receipts/ Global Depository Receipts (ADRs/GDRs). The investment in various areas can be made either by inward remittance or debit to NRE/FCNR account or debit to non interest bearing Escrow account.

- ▶ Sir then continued with his explanation that though the government has approved FDI in Indian retail market, there is a lot to accomplish. In most of the developed countries there is 25-27% of FDI in retail but in India this

Many countries have allowed FDI successfully and have observed growth in many of their sectors e.g.

- ▶ In UK employment increased by permission of FDI.
- ▶ In Thailand growth was observed in agro processing sectors
- ▶ In Indonesia besides FDI, traditional retailers are doing well

A lot has been talked about the issue of FDI in retail sector. The points which could be put in support of FDI

are:

- ▶ Big investment in retail and increase in employment.
- ▶ Removal of mediators.
- ▶ Balance of payment
- ▶ Import Substitution
- ▶ Source of export increase
- ▶ No harm to Kirana stores and neighbourhood shops
- ▶ Foreign companies to procure 30% goods from SMEs.
- ▶ Stringent rules to stop predatory pricing

Then there are arguments in against of this topic as well.

- ▶ There will be lesser opportunities for jobs.
- ▶ Foreign companies will procure their products from international resources.
- ▶ Small traders will not able to compete with companies.
- ▶ It is not sure that companies will procure 30% goods from SMEs.

In the end our guest speaker concluded the topic with the explanation of positive and negative aspect of each element related to FDI such as infrastructure, prices, kirana shops and local vendors etc... Though there are positive and negative sides to every new practice.

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