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Foreign Direct Investment (FDI) IN Retail

In Foreign Direct investment, the control of the company is in foreign hands. For example, If a company in USA directly invests money in an Indian company and keeps the control in its own hands in the form of majority stake, this is said to be foreign direct Investment.

Foreign Direct Investment Routes :-

Automatic Route

All the Businesses that can be set up under the automatic route are mentioned in the FDI Policy.

Government Route.

Under the government route; a prior approval of the centeral government, Ministry of finance or Department of Industrial Policy and Promotion as the case may be required.

Sectors in which FDI is Prohibited in India :-

(1) Lottery Business, including government, Private and online lotteries, etc.
(2) Gambling and betting including casions etc
(3) chit funds
(4) Nidhi companies
(5) Trading in Transferable Development Rights (TDR
(6) Real Estate Business or construction of farm houses

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7) Manufacture of cigars, cheroots, cigarettes of tobacco or tobacco substitutes.

8) Activities / Sectors not open for Private Sector Investments i.e railways and atomic energy.

Advantage of foreign direct Investment

(1) Inflow of funds :- Foreign Direct Investment causes inflow of the funds into the host country. These funds are generally in form of foreign exchange.

(2) High technology :- Foreign Direct Investment helps in bringing latest technology in the host country.

(3) New markets and marketing channels :- Foreign direct Investment brings in dual benefits of exploring new markets to the parent company and also gives the new markets.

(4) Employment generation :- A lot of employment is generated in the host country.

(5) Capital formation :- FDI invests its money in the assets, goods and services of the host country.

(6) High quality products :- There is an increase in the competition in the host country. As a result of this increased competition, the high quality products are ensured.

Disadvantages of FDI :-

(1) Foreign control :- The control and the management are vested in the foreign hands. As a result of this the domestic company becomes a puppet in the hands of foreign country.

(2) Harmful to domestic country :- The domestic country cannot fight the competition that these big companies give to them.

(3) Outside management and control :- As a result of FDI the management and control are vested in foreign hands So all the decisions are taken by the foreigners.

(4) Repatriation of Profits :- The company that establishes its Business in the host country repatriates a part of its profits to the host country. So there is outflow of funds from host country.

(5) Dilution of control :- As a result of FDI, the control of the companies goes from host country to the foreigners.