Vol. 6 No. 2 April 2018 ISSN: 2320-4168 UGC Approval No: 44120 Impact Factor: 4.118

INFRASTRUCTURE DEVELOPMENT AND ITS IMPACT ON FDI IN RETAIL - IN INDIA

Article Particulars

Received: 28.02.2018 Accepted: 23.03.2018 Published: 28.04.2018

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Introduction

Infrastructure sector is a key driver for the Indian economy. The sector is highly responsible for propelling India's overall development and enjoys intense focus from Government for initiating policies that would ensure time-bound creation of world class infrastructure in the country. Infrastructure sector includes power, bridges, dams, roads and urban infrastructure development. In 2016, India jumped 19 places in World Bank's Logistics Performance Index (LPI) 2016, to rank 35th amongst 160 countries.

The infrastructure sector in India is improving in a fast pace in the recent years. Many sectors like road infrastructure, rail infrastructure, power infrastructure and the like are having a paradigm improvement. More roads as well as bridges connecting various isolated villages in the country are being constructed, so that the access of the village people to the nearby urban area and cities for various basic necessities like health and education are ensured. The national government is giving more importance to infrastructure development to initiate economic reformation and the growth of it.

The large amount of budgetary funds are allocated to infrastructure sector and close monitoring of the development is being tracked.

Infrastructure and FDI in India

Now a daysa large amount of investment in the Infrastructure is coming from FDI source also. There is a precondition for allowing single brand or multi brand FDI in retail trade, a percentage of investment is to be ensured in the backend.

The national government has decided to have hundred more airports in various small towns in the country, which will also lead to a high level air connectivity infrastructure.

Foreign Direct Investment (FDI) received in Construction Development sector (townships, housing, built up infrastructure and construction development projects) from April 2000 to September 2017 stood at US$ 24.7 billion, according to the

Department of Industrial Policy and Promotion (DIPP). The logistics sector in India is expected to increase at a Compound Annual Growth Rate (CAGR) of 10.5 per cent, from US$ 160 billion in 2017 to US$ 215 billion by 2020, backed by the implementation of the Goods and Services Tax (GST), as per the Economic Survey 2017-18.

Investments

India will require investments of over US$ 4.5 trillion by 2040 for the development of its infrastructure, according to the Economic Survey 2017-18. India is witnessing significant interest from international investors in the infrastructure space. Some key investments in the sector are listed below.

Primarily, the infrastructure development is also carried out in order to include the rural villages also part of it. As a result of this many new industries of large size are coming up in various parts of the country. This will help the development of wholesale and retail trade of the consumables and other industrial inputs.

Government Initiatives

The Road Transport & Highways Ministry has invested around Rs 3.17 trillion (US$ 47.7 billion), while the Shipping Ministry has invested around Rs 80,000 crores (US$ 12.0 billion) in the past two and a half years for building world class highways and shipping infrastructure in the country. The Government of India is expected to invest highly in the infrastructure sector, mainly highways, renewable energy and urban transport, prior to the general elections in 2019.

The Government of India is taking every possible initiative to boost the infrastructure sector. Some of the steps taken in the recent past are being discussed hereafter.

- The 90 smart cities shortlisted by the Government of India have proposed projects with investments of Rs 191,155 crore (US$ 30.02 billion) which include Projects Focusing on Revamping an Identified Area (Area Based Projects) with investment of Rs 152,500 crore (US$ 23.95 billion).
- Contracts awarded under the Smart Cities Mission would show results by June 2018 as the work is already in full swing, according to Mr Hardeep Singh Puri, Minister of State (Independent Charge) for Housing and Urban Affairs, Government of India.
- The Government of India is working to ensure a good living habitat for the poor in the country and has launched new flagship urban missions like the Pradhan Mantri Awas Yojana (Urban), Atal Mission for Rejuvenation and Urban Transformation (AMRUT), and Swachh Bharat Mission (Urban) under the urban habitat model, according to Mr Hardeep Singh Puri, Minister of State (Independent Charge) for Housing

The poor villagers in the rural sector of the country will have an easy access to the urban markets, which will lead to direct sale of their products in the urban market, enabling more economic empowerment of them.

The market connectivity is an important ingredient for market expansion and its centralised control. This further cause helps to expand the market for product diversity and integrate them among themselves.

The vision and mission of the government in making the country as "Digital India" is very much appreciated even in global scenario.

The agriculture may be grown to a large extent in both the sectors, organised and unorganised. The big players will promote bulk agriculture, aggregating the fragmented lands of various small holders and enhancing it to a good level of output. This shall generate more employment in the agricultural sector.

The marginal agriculturists will attempt to the cultivation by using the modern seed, fertilizers, pesticides and the technologies made available by the large players.

In this area, another advantage is that the FDI people will, though as a matter of precondition for this in India, will allocate a large share to the infrastructure in rural areas and procuring certain stipulated percentage of products from the villages/rural areas as an obligatory condition.

In the side of the large players more and more warehouses will be built with more facilities of freezers and other requirements in order to preserve the agriculture products.

The more the agriculture production the more it will be available in the market, which may cause a deflatory trend in it. On the other side, the loss of agriculture products in the fields itself, as on now it is approximately 30%, will be avoided.

It may lead to export of products to various countries adding more foreign exchange to government exchequer.

The law administrators have recently introduced a new tax regime for indirect tax, which is GST. This is the consolidation of various taxes and duties totalling 40 in number.

The issue of compliance will be made hassle free, since instead of compiling provisions of numerous taxes and cess, only one integrated tax compliance system is introduced.

As far as the foreign players are concerned they are very much afraid of the various tax structure in different state/territory in the union of India.

Clarity in many of this tax laws were very ambiguous to interpret and comply with. Anyhow, this problem is solved now, so that the nation has one market and one indirect tax law.

Further to the above, the compliance system evolved is also digitalised. This will ensure a corruption free practice and administration of the GST law very easily. Here-in-before, big problems confronted by the FDI people were the giant size corruption in the system.

Ultimately, the inclusiveness and integration of the villagers will be ensured along with the implementation of GST in indirect tax and digitalised system of compliance introduced by the government.

Some adverse effect of GST are also predicted by few people on the apprehension that with the GST implementation are leading to some trends in the retails landscape. This is mainly on account of the small shops in unorganised sector also will be forced to take GST registration in future otherwise it may not be able to continue since all supply lines will be covered under it

The financial sector will be revitalised with the advent of modern technology development indigenously as well as introduced by the FDI people.

The communication network is in a big lap modernisation phase with more spectrum are released by the central government. This is further strengthened by the optical fibre system, and a large number of players in the area.

This development will certainly attract more and more FDI in the country, since this is very imminent further to move in a growth path so as to have a lead among the economic powers of the world.

As of now India is in par with China in economic growth. Recently the IMF has also predicted, in the coming years India will become the topper in the economic growth among the world countries.

The financial sector is being revamped to enable even the laymen to operate his bank account by himself. The internal controls in the digitalized financial sector are so strong that no big fraud events are reported in the country so far.

The financial inclusiveness will expand exponentially, so that the demand will be created among the common people in the country.

The economic empowerment shall ensure the increase of purchasing power of the common man.

Now almost 93% of the retail trade are in unorganised sector as stated earlier. With the inclusion of common man into the financial system and digitalisation of large folk of villagers in the remote areas in rural India as part of it will make the administration to ensure compliance of all the mercantile/financial laws easily by all of them.

Now the financial transactions are being reported through digitalised system in a large extent through the linking of PAN, Aadhar, etc. The electronic system of monitoring will persuade more and more people in the unorganised sector of retail trade to move to the organised sector as a matter of compliance of the laws of the country.

One important impediment for entry of large FDI into retail trade is the existence of unorganised sector. On reduction of the share of unorganised sector and consequent increase of the share of organised sector, the FDI will be more attracted to Indian retail. Naturally FDI will be flowing more to the country on change of the proportion of the unorganised and organised sector in it.

China is a good example for it. During the early years of 1980, while China had a share of more than 23% for the organised sector, big foreign companies with FDI was pouring into the country. This has ended up with a large amount of investment in the country like China which is a communist republic, normally no investment flows otherwise.

Now mom-and-pop shops are very much taking advantage of digital infrastructure. They are now offering special discounts on festival season, weekly offers. They have made use of the digital advancement in many areas and now a days it being used it in their business. They have commenced the practices of sending SMS alert and whatsapp messages to enhance their communication with the customers. They now acquire even the apps to collect orders from households and make the delivery at their door steps. They use the technology adoption in order to serve the changing customer attitudes, aspiration and requirements. As per the statics available today almost above 1.25 crores Mom-and-Pop, Kiranaor convenient stores are existing in the country

Now one can see a great change in the attitude of retailer in most parts of India. They have started repositioning their role in order to thrive in a situation where large players are coming into the retails. No doubt the change has occurred on the advancement of infrastructure in information technology

In conclusion, it can be confirmed that with the increase of investment in infrastructure and the development of it, more and more retail business are coming to the organised sector which may finally lead to more inward flow of FDI into the country.