



IMPACT OF FDI ON RETAIL SECTOR IN INDIA:

Aditi Amrit

Phd Scholar, Department Of Economics, University Of Jammu.

ABSTRACT

India intend to open its market to foreign investment can be traced back to economic reforms adopted during two prime periods – pre-independence and post-independence. As a result of economic reforms of 1991, trade increased by leaps and bounds. Retail sector contributes about 15% of the national GDP. Therefore, retail sector plays a very vital role in the development of the nation. Thus, it is very important to discuss the challenges related to the development of retail sector in India. This research is a descriptive study in nature. The secondary data was collected from various journals, magazines and websites. All the economic studies are faced with various limitations and this study is no exception to the phenomena. The comprehensive literature tends to demonstrate the foreign direct investment is necessary for sustained economic growth and development of any economy in this era of globalization. So, this study mainly covers the trend of FDI inflow in India and is more specific towards the retail sector.

KEYWORDS : Foreign Investment, economic reforms, retail trends, SWOT analysis.

INTRODUCTION:

In the way of business operations, many tremendous changes have been occurring in the past few decades. Foreign direct investment is that form of investment that benefits both the host countries as well as the investing countries. FDI can provide marketing channels as well as new markets, access to new technology, skill and finance to the foreign country. (Graham & Spaulding, 2005).

As per De Mello Jr. 1997, "FDI is defined as a form of international inter-firm cooperation that involves a significant equity stake in or effective management control of foreign enterprise".

There are mainly 2 ways in which foreign investment takes place, i.e. foreign direct investment and foreign indirect investment. The term FDI stands for investment in a foreign country, where the investor retains control over the investment. It is mainly in the form of starting a subsidiary, acquiring a stake in the existing firms or starting a joint venture in the foreign country. (Cherunilam, 2004). During the early 1990, full phase of integration process has been started in the form of new economic policy in India. The role of private sector has been greatly increased by the new policy and opening up of the economy to a greater external and internal competition. The liberalization of Foreign Direct Investment (FDI) policy of the Indian Economy in 1991, has opened up front doors to many multinational corporation. But the policy framework for the retail and the trading sector has continued to be highly restricted. Ever since, the multinational corporations have been eagerly waiting for the opening of the Indian retail sector for the FDI. Discussions pertaining to FDI in retail trade in India have always yielded a mixed bag of reactions. Finally the big news seems to have arrived that India is ready to open up the doors for FDI in retailing.

OBJECTIVES OF THE STUDY:

1. To analyze the role of FDI in Indian retail sector & various policies related to it.

RESEARCH METHODOLOGY:

An attempt has been made to collect the data in order to find out the trends of FDI in the retail sector in India. The secondary data was collected from various books, journals, magazines and websites. Graphs and tables have also been used when ever required to depict statistical data of FDI during the study period. The data has been collected from government official records, various published reports, websites, research reports, already conducted survey analysis, etc.

REVIEW OF LITERATURE:

Numerous studies regarding, "Impact of FDI on retail sector in India" have been conducted in the past.

Dr. Prerna Jain and Dr. Anurodh Godha (2012) in their article, "Prospects of Multi-brand FDI in India's retail sector: an analysis" relates that Indian retail is a sector of the economy, which employs 6% of the nation's work force and contributes 13% to the GDP. This paper also finds out that Global Retail Development index confined India as the most attractive for retail investment for a third consecutive year. The paper also argues that retail sector engaged in selling finished products to end consumers. It was found that established retail sectors like Tata, Reliance, Birla, Future Group, after a series of experiments with various retail formats, jumped into retailing of fresh vegetables, fruits, groceries and beverages. These contribute two third of the organized retail market.

Amisha Gupta, (dec. 2010), in her study, "FDI in Indian Retail Sector: Strategic issues and implications" relates that Retailing is the second largest employer after agriculture, the sector contributes to around 10% of GDP. With over 12 million retail outlets, India has the highest retail outlets density in the world. Retail sector provides 15% employment. Unorganized retailing is by far the prevalent form of trade in India constituting 98% of the total, while organized trade accounts only for the remaining 2%. The key factors like rising incomes and improvements in infrastructure are enlarging consumer markets and accelerating the convergence of consumer tastes.

FDI IN RETAIL SECTOR-

Estimation of the Indian retail market is about US \$ 450 billion. **Retailing in India** accounts for 14 to 15 percent of its GDP. India is one of the fast growing retail market in the world, with 1.2 billion people.

For foreign retailers, an embattled UPA government has hung the 'Open' sign. On November 24, 2011, the Union Cabinet of the Indian government approved a proposal of allowing 51 percent FDI in the multi-brand retailing in India and 100 percent FDI in the single-brand retailing. On one hand, farmers will benefit from it but on the other hand small traders feel that they will not be able to withstand the competition. In setting up new stores to meet the front-end requirement; a foreign multi-brand retailer will have to spend \$50 million.

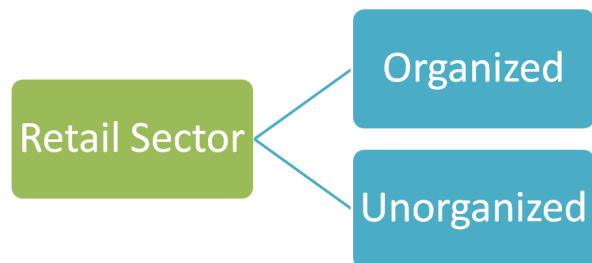
Meaning of retail:

The retail industry consisted of individuals, stores, commercial complexes, agencies, companies and organization etc are all involved in the business of selling and merchandizing diverse finished products or goods to the end users or consumers directly or indirectly. At a margin of profit, a retailer is involved in the act of selling goods to the individual consumer.

The retail industry mainly divided into: (a) Organized Retailing & (b) Unorganized Retailing:

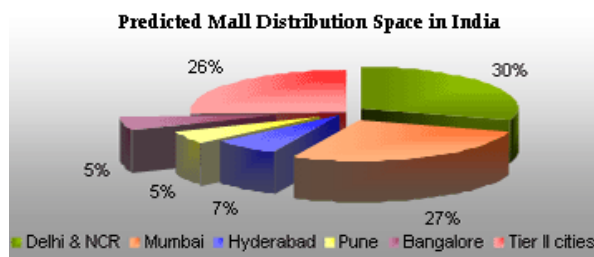
a)**Organized Retailing:** It is known as trading activities done by licensed retailers who are registered for sales tax, income tax etc. These include the corporate backed Hypermarkets outlets, retail chains and also privately owned large retail businesses.

b)**Unorganized Retailing:** It is related to the traditional formats of low cost retailing, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hard cart & pavement vendors etc. Figure 1-



The key factors that involve consumer preference for shopping in new environs, availability of quality real estate and mall management practices and a shift in consumer demand to foreign brands like Mc Donalds, Sony, and Panasonic etc. also contributes to the spiral of growth in this sector.

Young energetic workers who have a broad spectrum of new ideas is another incredible change in the prospects of the retail sector in India. In India, healthy pay scale-packets has given a boost in the economic sector. Increase in working-women population leads to enhancing the opportunities in the service sectors which are also the drivers of growth in an organized retail sector in India. For retail investors over the world, India is looking like a goldmine. As per the Latest research India has been rated on the top for an attractive emerging retail market. Figure 2-



In major cities, as shopping malls are becoming familiar for the development in the retailing sector of India to develop fast. Till 2007, if development plans are studied, it shows the projection of 220 shopping malls, with 139 malls in metros and the remaining 81 in the rest of the cities.

Of the total Indian retail market, 8% constitutes the organized retail segment where as 92% constitutes the unorganized retail segment.

Figure 3: Indian retail Share

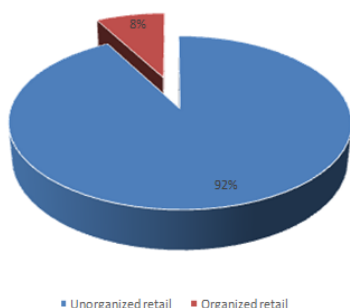
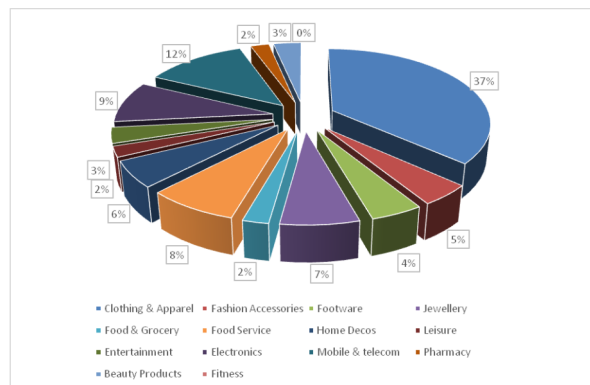


Figure 4: Share of different retail verticals in modern or organized retail segment



Unorganized Retail is essentially the next-step after agriculture for those seeking to climb the ladder of affluence in search of a higher income. Recognizing the short-term and long-term growth of retail in India, a number of domestic business giants have entered the retail industry. Some like Pantaloon Retail, Shopper's Stop and Pyramid Retail have been in the industry for a decade. Others like Reliance Retail Ltd. have entered and Birla and Bharti opened up a number of stores across the country. Also, due to the increase in the FDI stake, many foreign players will be entering in India like, Walmart, Best Buy, etc.

Government FDI policy for retail sector in India:

The Ministry of Commerce & Industry, Government of India is the nodal organization for reviewing & monitoring the FDI policy on continued basis. The foreign investors are free to invest in India, except few sectors, where prior approval from RBI would be required.

- Indian government has allowed FDI of up to 51% in multi-brand sector like Walmart, etc.
- Single brand retailers such as major electronics brands like Apple, Samsung, etc. can own 100% of their Indian stores.
- Since 95% of the sector constitutes unorganized retail, the Government has treaded cautiously by building adequate safeguards for the domestic stakeholders in such sector.
- FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.
- The retailers (both single and multi-brand) will have to source at least 30% of their goods from SME' & micro Indian suppliers.
- All retail stores can open up their operations in cities having population over 1 million. Out of approximately 7935 towns and cities in India, 55 fulfill such criteria.
- Multi-brand retailers must bring minimum investment of \$100 million. Half of the amount must be invested in back-end infrastructure facilities such as cold chains, refrigeration, transportation, packaging etc. to reduce post-harvest losses and provide remunerative prices to farmers.

According to the experts, the new policy shall provide a substantial boost to the \$28 billion Indian organized retail market which is expected to reach \$260 billion by 2020.

CONCLUSION:

- It may be concluded that developing countries has make their presence felt in the economics of developed nations by receiving a descent amount of FDI in the last thirty years. Although India is not the most preferred destination of global FDI, but there has been a generous flow of FDI in India since 1991. India as the founding member of GATT, WTO, a signatory member of SAFTA and a member of MIGA is making its presence felt in the economic landscape of globalised economies.
- Small retailers will not be crowded out, but would strengthen their market positions by modernizing their working.

3. There will be initial and desirable displacement of middlemen involved in the supply chain of farm produce, but they would be absorbed by increase in the food processing sector induced by organized retailing.
4. Innovative government measures could mitigate adverse effects on small retailers.
5. Farmers will get an opportunity of direct marketing and hence get better price for their produce.
6. Consumers would certainly gain from enhanced competition, better quality, variety of branded goods and attractive discount offers.
7. The state revenues will rise on account of larger business as well as recorded sales.
8. The Competition Commission of India would need to play a proactive role to avoid unfair competition in retail industry.
9. The displaced retailers and employees in unorganized sector should be provided necessary training of modern trade and absorbed in the modern trade on priority basis.

BIBLIOGRAPHY

1. Agosin, M. & Mayer, R. (2000). Foreign investment in Developing Countries: Does it Crowd in Domestic Investment, UNCTAD, Geneva.
2. Aitken, B, Hanson, G. & Harrison, A. (1997) Spillovers Foreign investment and export behavior. *Journal of International economics*, 4, 123-129.
3. Dikshit, A. (2011). The uneasy compromise Indian retail. *The wall street journal*.
4. Aggarwal, A. (2006). Special economic zones: revisiting policy debate. *Economic and political (weekly)*.
5. Athreye, S. & Kapur, S. (2001). Private Foreign Investment in India: Pain or Panacea. *The World Economy*, 24, 399-424.
6. Balasubramanyam, V. N. & David, S. (2007). Does India need a lot more FDI. *Economic and Political Weekly*, 1549-1555.
7. Basu, P. & Nayak, N. C. (2007). Foreign Direct Investment in India: Emerging Horizon, *Indian Economic Review*, 42(2), 255-266.
8. Borensztein, E, Gregorio, J.D. & Lee, J.W. (1998). How does FDI affect economic growth. *Journal of international economics*, 45, 254-268.
9. Borensztein, E, Gregorio, J.D. & Lee, J.W. (1995). How does Foreign Direct Investment Affect Growth. *Journal of International Economics*, 45, 115-135.
10. Chakraborty, C. & Nunnenkamp, P. (2006). Economic Reforms, Foreign Direct Investment and Its Economic Effects in India.
11. Chandra, N. (1991). 'Growth of Foreign Capital and importance in Indian Manufacturing. *Economic and Political Weekly*, 26, 11-12.
12. Rao, G.S. & Prashanth. (2012). FDI in Indian Retail Industry IRACST-international journal of commerce, Business and Management (IJCMB), 1(1), 195-203.
13. Jain, P. Godra, A. (2012). Prospects of Multi-brand FDI in India's retail sector. *An analysis pacific business review international*, 5(3), 154-169.
14. Dua, P. & Rasheed, A. I. (1998). Foreign Direct Investment and Economic Activity in India. *Indian Economic Review*, 33, 153-168.
15. William, E. (2001). The Lost Decades: Developing Countries Stagnation in spite of Policy Reforms. *Journal of Economic Growth*, 6.
16. Economic Survey. (2009-10). Ministry of Finance, Government of India, New Delhi.
17. Guruswamy, M, Sharma, K, Mohanty, J.P. & Thomas, J.K. (2005). FDI in India's Retail Sector: More Bad than Good. *Economic and Political (Weekly)*, 619-623.
18. Iyare, S, Bhaumik, O. & Banik, K. (2004). Explaining FDI inflows to India, China and the Caribbean. *Economic and political (weekly)*, 3398-3407.
19. Martinussen, J. (1988). Transnational corporation in a developing country – The Indian experience. Sage Publications New Delhi.
20. Kalhan, A. (2007) Impact of malls on small shops and Hawkers. *EPW*, 42(22), 2063-66.
21. Kaur, P. & Singh, R. (2007). Uncovering Retail Shopping Motives of Indian Youth. *Young Consumers: Insight and Ideas for Responsible Marketers*, 8(2), 128-138.
22. Kinra, N. (2006). The Effect of Country-of-origin on Foreign Brand Names in the Indian market. *Marketing Intelligence & Planning*, 24(1), 15 – 30.
23. Kumar, N. (1995). Industrialization, Liberalization and Two Way Flows of Foreign Direct Investments-Case of India. *Economic and Political Weekly*, 48, 3228-3237.
24. Joseph, M. & Soundara Rajan, N. (2012). The Indian council for research on international economic relations (ICRIER), 2(5), 168-173.
25. Mccausland, W.D. (1999). An international economic analysis of FDI and international indebtedness. *The Indian economic journal*, 48(4), 82-91.
26. Vaidehi, P.U. & Alekhya, S.P. (2012). Study about the role of FDI in retailing. *Asia pacific journal of marketing and management review*, 1(2), 2319-2836.
27. Mukherjee & Patel. (2005). Foreign retailers are working with small manufacturers for in house labels and providing them technologies, 2(5), 1231-1239.
28. Nagaraj, R. (2003). FDI in India in the 1990's. *Economics and political (weekly)*.
29. Ramachander, S. (1988). Consumer Behaviour and Marketing- Towards an Indian Approach. *Economic and Political Weekly*, 23(9), 22-25.
30. Rao, S. L. (1998). Brand Building in Indian Industry. *Economic and Political Weekly*, 33(40), 2566-2568.
31. Rao, S. L. (2000). India's Rapidly Changing Consumer Markets. *Economic and Political Weekly*, 35(40), 3570-3572.
32. Sharma, E.A.S. (2005). Need for caution in retail FDI. *Economic and political (weekly)*, 4795-4798.
33. Sinha, P. K, Banerjee, A. & Uniyal, D.P. (2002). Deciding Where to Buy: Store Choice Behaviour of Indian Shoppers. *Vikalpa, Indian Institute of Management*, 27(2).
34. Sinha, P.K. (2003). Shopping Orientation in the Evolving Indian Market. *Vikalpa*, 28(2), 13-22.