

Impact of FDI Inflows on Retail Sector in India



Commerce

KEYWORDS :

Mohammad Shahfaraz Khan

(Research Scholar, Department of Commerce, Aligarh Muslim University, Aligarh, U.P.)

Shoaib Mohammed

(Research Scholar, Department of Commerce, Aligarh Muslim University, Aligarh, U.P.)

ABSTRACT

Since the beginning of the liberalization of Indian Economy, Foreign Direct Investment has captured the centre stage. The FDI is imperative to economic development of a country. Above all it brings in new technology and management concepts that pave the way to judiciously utilize the resources, thereby increasing the productivity and finally hold a chunk in the business globally. Moving ahead, India's growing retail boom is also one of such success story. With strong fundamentals developing in the economy with changes in income levels, lifestyles, taste & habits reflecting in strong consumerism with preference for superior quality and branded products, vast domestic market with a very competitive manufacturing base, Indian economy observed a major retail boom in recent years. In this study the researcher tried to explore the relationship of retail FDI inflows with the GDP of the economy and also with the indicators of retail sector growth i.e., retail sales and retail employment generation. The result of the first hypothesis signifies that there is a significant impact of retail FDI Inflows on the retail employment generation. Second hypothesis reveals that the retail FDI inflows do have significant impact on the retail sales growth as a major indicator of retail sector performance. Lastly the researcher tried to found out the impact of retail FDI on the GDP and it the result reveals that retail FDI do not contribute significantly to the GDP of the economy.

Introduction

As a result of the liberalized policies & reform measures taken by the government since 1991, Indian Economy has achieved commendable growth rates over the last few years with many success stories in many fronts. India's growing retail boom is one such success story. With strong fundamentals developing in the economy with changes in income levels, lifestyles, taste & habits reflecting in strong consumerism with preference for superior quality and branded products, vast domestic market with a very competitive manufacturing base, India also observed a major retail boom in recent years. Being encouraged by India's growing retail boom many multinational companies also started making beeline to enter India's retail market. Indian Industry, by and large, has also hailed investment from abroad which has been considered to be very vital for adding to domestic investment, addition to capacity, higher growth in manufacturing, trade, business, employment, demand, consumption and income with multiplier effects.

The government of India allows 100% foreign ownership in single brand retail and 51% in multi brand retail in January 2012 paving the way for International Business to operate independently in the country without having intervention from local partners. Foreign Single Brand retailers were previously limited to 51% ownership in 2006. FDI is defined as cross border investment by a resident entity in one economy with the objective of obtaining a lasting interest in an enterprise resident in another economy. FDI is widely perceived as an important resource for expediting the industrial development of developing countries especially India because of the fact that it flows as a bundle of capital, technology, skills and sometimes even market access.

Retail is derived from the French Word '*retailleur*' which means '*to break bulk*' and consists of those business activities which are involved in the sales of goods to services to consumers for their personal, family or household use. It is the last link in the process of distribution of merchandise between producers to final consumer. In 2004, The High Court of Delhi defined the term 'retail' as a sale for final consumption in contrast to a sale for further sale or processing (i.e. wholesale), a sale to the ultimate consumer. Thus Retail is identified as "a link or interface between bulk producers and individual consumers who purchase for final consumption". The Retail Industry is the sector of economy which is consisted of individuals, stores, commercial complexes, agencies, companies, and organizations,

etc., involved in the business of selling or merchandizing diverse finished products or goods to the end-user consumers directly and indirectly. Goods and products of the retail industry or sector are the finished final objects/products of all sectors of commerce and economy of a country. The Retail sector of India is vast, and has huge potential for growth and development, as the majority of its constituents are unorganized. The retail sector of India handles about \$250 billion every year, and is expected by veteran economists to reach to \$660 billion by the year 2015. The business in the organized retail sector of India, is to grow most and faster at the rate of 15-20% every year, and can reach the level of \$100 billion by the year 2015. Here, it is noteworthy that the retail sector of India contributes about 15% to the national GDP, and employs a massive workforce of it, after the agriculture sector. India's growing economy with a rate of approximately 8% per year makes its retail sector highly fertile and profitable to the foreign investors of all sectors of commerce and economy of a country. Global Jurix, a full-fledged legal organization prominent worldwide, provides all-encompassing services and advice for most lucrative and secured FDI in Indian retail sector. AT Kearney (a globally famous international management consultancy) recognized India as the second most alluring and thriving retail destination of the world, among other thirty growing and emerging markets. At present, other profitable retail destinations of the world are China and Dubai of Asia. Diverse foreign direct investment in Indian retail is greatly cherished by most of the major and leading retailers of USA and European countries, including Wal-Mart (USA), Tesco (UK), Metro (Germany), and Carrefour (France). Liberalization of trade policy and loosening of barriers and restrictions to the foreign investment in the retail sector of India, have collectively made the FDI in retail sector quite easy and smooth. Our services are easily and economically available for the following ways of FDI in Indian retail.

Review of Literature

Singh and Agarwal scrutinize the relationship of Foreign Direct Investments with the Indian Retail Sector. Their work is to get an insight as to what are the trends in Indian retail industry, advantages & disadvantage of 100% FDI in retail. It is concluded that FDI would lead to a more comprehensive integration of India into the worldwide market and, as such, it is imperative for the government to promote this sector for the overall economic development and social welfare of the country. If done in the right manner, it can prove to be a boon and not a curse.

Rohilla and Bansal tried to explore the opportunities and challenges before FDI in retail in India. They further try to find the answers to the following questions: Up to what extent the FDI poses threat to the existing unorganized retail culture and what are the various opportunities available to the democratic element in India, masses and other bodies? Whether the problem of unemployment can be solved with the FDI in retail trade? What efforts Government will take to give jobs to the unemployed masses if this unemployment happens because of the FDI? They had gone through various researches and committee reports and point out some important issues to be resolved before allowing FDI in retail.

Muralidhar critically analyzed the Government of India's arguments in favour of FDI in Retail in India. He through his detailed article analyze and give a clear picture that government in its hurry to open up FDI in multi brand retail is using flawed arguments like: Growth of organized retail will create millions of good quality new jobs, Infrastructure would be built and help saving agricultural produce from wastage, Farmers will be benefited in form of high prices for their produce, Consumers will be benefited, as they will get goods at cheaper price and thereby inflation can be curbed. This article criticizes all these claims and proved them illogical with the help of past data and international experience of MNC's in US and Europe.

Objectives of the Study

- (i) To examine the current scenario of Indian Retail Sector.
- (ii) To identify the relationship of FDI Inflows in Retail with GDP of India.
- (iii) To evaluate the impact of FDI Inflows on Indian Retail Sector.

Hypotheses

Ho1: There is no significant impact of Retail FDI on the retail sector performance in terms of employment generation.

Ho2: There is no significant impact of Retail FDI on the retail sector performance with respect to Retail Sales.

Ho3: There is no significant impact of Retail FDI on the growth of Indian economy in terms of GDP.

Indian Retail Sector

The Indian retail industry is the fifth largest in the world, comprising of organized and unorganized sectors, retail industry is one of the fastest growing industries in India, especially over the last few years. With growing market demand, the industry is expected to grow at a pace of 25-30% annually. The Indian retail industry is expected to grow from 321 billion dollar in 2006 to 518 billion dollar by the year 2012. The Indian retail industry is the most emerging market for investment. In 2007, the retail trade in India had a share of 8-10% in the GDP (Gross Domestic Product) of the country. In 2009, it rose to 12%. It is also expected to reach 22% by 2010 (Kearney, A.T). Retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit.

The retail industry is mainly divided into (i) Organized Retailing (ii) Unorganized Retailing.

Organized Retailing:

Organized retailing refers to trading activities undertaken by licensed retailers, those who have registered for sales tax, income tax, etc. These include corporate-backed hypermarkets and retail

chains, and also privately-owned large retail businesses.

a) Single Brand Retail:

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' retail implies that a retail store with foreign investment can only sell one Brand. For example, if Adidas were to obtain permission to retail its flagship Brand in India, those retail outlets could only sell products under the Adidas Brand and not the Reebok Brand, for which separate permission is required. If they get permission, Adidas could sell products under the Reebok Brand in separate outlets.

b) Multi Brand Retail :

FDI in Multi Brand retail implies that a retail store with a foreign investment can sell Multiple Brands under one roof. Opening up FDI in Multi-Brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous 'kirana' store.

Unorganized Retailing:

Unorganized retailing refers to the traditional forms of low-cost retailing, for example, local kirana shops, Owner operated general stores, paan/beedi shops, convenience stores, hand cart and street vendors, etc.

According to a study on impact of organized retailing on the unorganized sector, the real GDP is expected to grow at 8-10 per cent per annum in the next five years. As a result, the consuming class with annual household incomes above Rs. 90,000 is expected to rise from about 370 million in 2006-07 to 620 million in 2011-12. Consequently, the retail business in India is estimated to grow at 13 per cent annually. The unorganized retail sector is expected to grow at about 10 per cent per annum. Given the relatively weak financial state of unorganized retailers, and the physical space constraints on their expansion prospects, this sector alone will not be able to meet the growing demand for retail. Hence, organized retail which now constitutes a small four per cent of total retail sector is likely to grow at a much faster pace of 45-50 per cent per annum and quadruple its share in total retail trade to 16 per cent by 2011-12. This represents a positive sum game in which both unorganized and organized retail not only coexist but also grow substantially in size. The majority of unorganized retailers surveyed in this study, indicated their preference to continue in the business and compete rather than exit.

Research Methodology

The study is quantitative in nature. The secondary information is extensively used for analysis purpose. The secondary data pertaining to the study is originated from various sources like National Sample Survey Organization (NSSO), Esteemed Journals, SIA reports, Newspapers, and websites of Government Agencies and Economic Survey. In order to compare the FDI Inflow and Retail Sector, the proportionate method and descriptive statistics is used.

Tools used to test the Hypotheses

To test the Hypothesis under study, simple linear regression model has been applied to know the impact of retail FDI on Indian economic growth in terms of GDP, Retail Performance in terms of retail Employment Generation and retail Sales in India. The strength of linear relationship between the dependent variable and independent variable is measured by the coefficient of determination. The data analyzed in this paper has been scrutinized through statistical tools & techniques.

Analysis and Interpretation

Hypothesis

Ho1-The Null Hypothesis assumes that there is no significant impact of FDI Inflow in Retail sector on Retail Performance in terms of Retail Employment Generation.

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.724 ^a	.524	.445	.00783	.524	6.613	1	6	.042
a. Predictor s: (Constant), Retail FDI									

Impact of FDI Retail on Retail Employment

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.050	.005		9.372	.000
	Retail-FDI	4.371E-6	.000	.724	2.572	.042
a. Dependent Variable: Retail Employment.						

Source: Through SPSS, Based on Appendix-1

In order to test the above hypothesis the Retail Employment has been taken as a dependent variable and FDI in Retail Sector has been taken as an independent variable. The data of FDI in Retail and Employment has been taken on yearly basis from 2006-07 to 2013-14. For testing the above mentioned hypothesis the simple linear regression tool is used. From the above table it is found that the correlation between them is 0.724 which shows a high degree of relationship between Retail FDI and Employment in Retail. The model summary table provides that the R square i.e., coefficient of determination, is found to be 0.524 and indicates that 52% variations in the Retail Employment are explained by the Retail FDI. The coefficient table provides that the significant p-value .042 which is less than .05 therefore the null hypothesis is **rejected**. And it can be concluded that there is a significant impact of Retail FDI on the Retail performance in terms of Employment Generation.

Ho2-The Null Hypothesis assumes that there is no significant relationship between FDI inflows in retail sector and Retail Performance in terms of Retail Sales.

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.728 ^a	.531	.452	4.36581E5	.531	6.782	1	6	.040
a. Predictors: (Constant), Retail FDI									

Impact of FDI Retail on Retail sales

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.382E6	298617.066		4.628	.004
	Retail FDI	246.942	94.821	.728	2.604	.040
a. Dependent Variable: Retail Sales						

b. Source: Through SPSS, Based on Appendix-1

In order to test the above hypothesis the Retail sales has been taken as a dependent variable and FDI in Retail Sector has been taken as an independent variable. The data of FDI in Retail has been taken on yearly basis from 2006-07 to 2013-14. For testing the above mentioned hypothesis the linear regression tool is used. From the above table it is found that the correlation between them is 0.728 which shows a high degree of relationship between Retail FDI and Retail Sales. The model summary table provides that the R square i.e., coefficient of determination, is found to be 0.531 which indicates that 53% variation in the Retail sales are explained by the Retail FDI. The coefficient table provide that the significant p-value .04 which is less than .05 therefore the null hypothesis is **rejected** and it can be concluded that there is a significant impact of Retail FDI on the Retail performance in terms of retail sales.

Ho3-The Null Hypothesis assumes that there is no significant relationship between FDI inflows in retail sector and Growth of Indian Economy in terms of GDP.

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.672 ^a	.452	.361	6.27077E5	.452	4.950	1	6	.068
a. Predictors: (Constant), Retail FDI									

Impact of FDI in Retail sector on GDP

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.874E6	428915.130		9.032	.000
	RetailFDI	303.012	136.194	.672	2.225	.068

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.672 ^a	.452	.361	6.27077E5	.452	4.950	1	6	.068
a. Dependent Variable: GDP									

In order to test the above hypothesis the GDP has been taken as a dependent variable and FDI in Retail Sector has been taken as an independent variable. The data of FDI in Retail has been taken on yearly basis from 2006-07 to 2013-14. For testing the above mentioned hypothesis the simple linear regression tool is used. From the above table it is found that the correlation between them is 0.672 which shows a moderate degree of relationship between Retail FDI and GDP. The model summary table provides that the R square i.e., coefficient of determination, is found to be 0.452 and indicates that only 45% variations in the GDP are explained by the Retail FDI. The coefficient table provide as the significant p-value .068 which is more than .05 therefore the null hypothesis is **accepted**. And it can be concluded that there is no significant impact of Retail FDI on the growth of Indian Economy in terms of GDP.

Limitations of the Study

The Study is related to the India and therefore the results may not be applied to other countries. This is a time bound study covering a period from 2006-07 to 2013-14 and valid for this period of time. The study covers only the employment of retail sec-

tor only and does not cover 90% employment in India. The study ignores other variables also which play an important role in the growth and development of retail sector. There is no government agency which provides the retail sector data. Since the FDI environment is changing frequently and every change has its own impact and therefore it is very difficult to consider all the changes at a time.

Conclusions and Suggestions

In this study the researcher tried to explore the relationship of retail FDI inflows with the GDP of the economy and also with the indicators of retail sector growth like retail sales and retail employment generation. The result of the study signifies that there is a significant impact of retail FDI Inflows on the retail employment generation. It is due to the fact that FDI is a direct investment which is having a lasting interest in the investment destination can contribute significantly in the opening of new retail destinations or outlets and these destinations requires human resource to run them. The result of the second hypothesis reveals that the retail FDI inflows do have significant impact on the retail sales growth as a major indicator of retail sector performance. It also signifies that one unit change in retail FDI can contribute to 247 units change in retail sales. Lastly the researcher tried to find out the impact of retail FDI on the GDP and was found that retail FDI do not contribute significantly to the GDP of the economy. It is due to the fact that FDI in retail is subjected to the organized part of retail and the share of organized retail in the total retail is very low and therefore we can say that FDI is beneficial for growth of retail sector in India.

APPENDICES

APPENDIX-1 FDI Inflow in Retail Sector 'and' GDP, Sales and Employment Generation in Retail Sector in India During the Period From 2006-07 to 2013-14

Years	Retail FDI	Employment in Retail	Retail sales	GDP
2006-07	10313	553000	1453645	3564364
2007-08	28516	569000	1388315	3896636
2008-09	20776	588000	1689746	4158676
2009-10	15539	437000	1877697	4516071
2010-11	17880	646000	1932456	4918533
2011-12	26461	677000	2257169	5247530
2012-13	29445	716000	2818391	5482111

2013-14	66745	770000	2964500	5741791
---------	-------	--------	---------	---------

Source: Compiled by the Authors from Economic Survey of 2013-14, IBEF Research, CSO Data Book for PC 3rd July 2014.

REFERENCE

1. CII Survey Report., The Impact of FDI in Retail on SME Sector, p.4 | | 2. Accessed from website www.india-briefing.com/ on 16 June 2014 | |
3. Accessed from www.oecd-ilibrary.org/sites/factbook-2013-en/04/02/01/index.html?itemId=/content/chapter/factbook-2013-34-en on 28 Sept. 2014 | | 4. Kumar.N., "Liberalization, Foreign Direct Investment Flows and Development. Indian Experience in the 1990's", Economic and Political Weekly, 2005, Vol 40, No.14, p. 1459 | | 5. Accessed from www.dicionary.reference.com/browse/retail on 25 Sept. 2014 | | 6. Patil.U.N., "Foreign Direct Investment in Indian Retail Sector-An Analysis "Indian Streams Research Journal, 2012, Vol.2, No.1, p.2 | | 7. Kumar.B.U., "A Conceptual Framework on Foreign Direct Investment In Retail Sector-India", Asia Pacific Journal of Marketing & Management Review, 2012, Vol.1, No.4, pp.86-87 | | 8. Singh.A.K, Agrawal.P.K., "Foreign Direct Investment:The Big Bang in Indian Retail", VSRD Interanational Journal of Business and Management Research, 2012, Vol.2, No.7, pp.327-337 | | 9. Rohilla.A., Bansal.M., "Globalization in Retail Culture: FDI in Retail, Opportunities, Challenges to Democratic Element in India" SAJMMR, 2012, Vol.2, Issue.7 | | 10. Kearney, A.T, 8th Annual Global Retail Development Index (GRDI)