A STUDY ON IMPACT OF FOREIGN DIRECT INVESTMENT IN RETAIL SECTOR

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ABSTRACT

Retailing sector of India is an emerging sector and back bone of Indian economy. The contribution of this sector is 14 to 15 percent in the total GDP. The retail market of India is estimated to be US$ 500 billion and one of the top five retail markets in the world by economic value. Indian retail market is getting very popularity over the world with 1.2 billion people. As of 2013, India's retailing industry was essentially owner manned small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4 percent of the industry, and these were present only in large urban centers. There are 40 million Indians (3.3% of Indian population) engaged with Indian's retail and logistics industries. From 1991, Foreign Direct Investment (FDI) was limited to only a few sectors like manufacturing, infrastructure etc. But In July 2011, the government of India has recommended 51% FDI in Multi - Brand Retail and 100% FDI in Single - Brand Retail. The main objective of this study is to find out the impact of FDI on retail sector.

Keywords: *FDI, Retailing, Organized sector, unorganized sector.*

INTRODUCTION

India's retailing sectors is growing at very fast rate. This sector gets popularity after introducing the liberalized economic policy since 1991 with changes in income levels, lifestyles, taste & habits of consumers with preference for superior quality and branded products, vast domestic market with a very competitive manufacturing base. A major retail boom is observed in India in recent years. Therefore, many multinational companies also started making beeline to enter India's retail market. Investment from foreign investors has also been summon by Indian industry, by and large, as the same has been measured to be very imperative for adding to domestic investment, addition to capacity, higher growth in manufacturing, trade, business, employment, demand, consumption and income with multiplier effects. In current policy of FDI, Government of India allowed 51% FDI in single brand retail and 100% in cash & carry only. But in India, FDI in multi brand retail has not yet been permitted. One of the major steps was taken by the Government of India in Nov 2011, to encourage the organized retailing in the country was the recent decision of the cabinet to allow 51% FDI in multi brand retail and 100% in single brand retail. The decision was delayed and held back for some time because of the absence of political consensus in the Government and controversies raised in the country. The government has ultimately taken the bold decision and notified the much-awaited policy allowing 100 % FDI in single brand retail from the existing 51%. In view of the above background, the Confederation of Indian Industry (CII) has recently undertaken a comprehensive survey on Foreign Direct Investment (FDI) in retail on SME sector, in particular to assess the impact of the government's decision to allow 51% foreign direct investment (FDI) in multi-brand retail and 100% in single brand retail on the Indian SME sector on different aspects of growth based on some select parameters.

RESEARCH OBJECTIVE

The general objective of the study is to explore the impacts and opportunities of FDI in Retail Sector. The research has the following specific objectives:

- To explore the trends of FDI in Indian retail sector.
- To examine the structure and opportunity of FDI in the same sector.

- To analyze the impacts of FDI in Indian retail sector.
- To identify the major challenges of FDI in retail sector.

Source of Data collection

The study is descriptive in nature. The study primarily includes secondary data which has been taken from different literature review, case studies, journals, newspapers and online databases and websites of DIPP (Department of Industrial Policy and Promotion), RBI (Reserve Bank of India). The main focus of the study is to highlight the emerging challenges and opportunities of FDI in retail sector.

Analysis and Interpretation

To achieve aforesaid objectives, data is collected from secondary sources. on the basis of data collected, results are presenting here-in-under:

Structure of Indian Retail Market

Big Retailer	23%
Small Retailers	31%
Hawkers	!5%
push cart vendors	31%

The table 1 and the figure 1 present the structure of Indian retail market. From this table, it can be analysed that small retailers and push cart vendors have the maximum retail market that is 31%. Big retailers are the only 23% and hawkers' market area is only 15%.

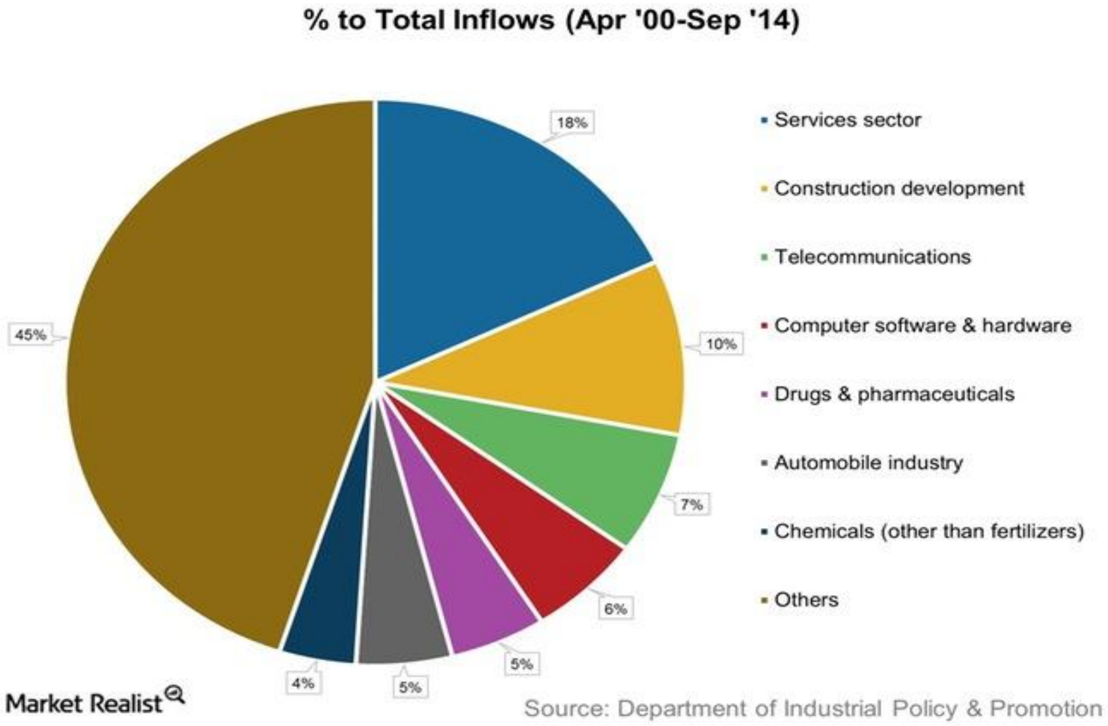

Figure 2 Percentage of Total Inflows in Different Sectors

The figure 2 shows the percentage of total FDI inflows in different sectors. The figure presents that 45% of total FDI is employed in other sector and got the first rank among all sector. Service sector got 2nd rank and there are 18% inflows of FDI in this sector. In chemical sector there are only 4% total inflows of total FDI inflows.

Table 2 FDI inflows in India (2000-01 to 2014-15)

S. Nos	***Financial Year (April – March)***	***Amount of FDI Inflows***		***%age growth over previous year***
FINANCIAL YEARS 2000-01 to 2014-15 (up to January, 2015)		***In Rs crores***	***In US$ million***	***(in terms of US $)***
1	**2000-01**	10,733	**2,463**	-
2	**2001-02**	18,654	**4,065**	**(+) 65 %**
3	**2002-03**	12,871	**2,705**	**(-) 33 %**
4	**2003-04**	10,064	**2,188**	**(-) 19 %**
5	**2004-05**	14,653	**3,219**	**(+) 47 %**
6	**2005-06**	24,584	**5,540**	**(+) 72 %**
7	**2006-07**	56,390	**12,492**	**(+)125 %**
8	**2007-08**	98,642	**24,575**	**(+) 97 %**
9	**2008-09**	1,42,829	**31,396**	**(+) 28 %**
10	**2009-10 #**	1,23,120	**25,834**	**(-) 18 %**
11	**2010-11 #**	97,320	**21,383**	**(-) 17 %**
12	**2011-12 # ^**	1,65,146	**35,121**	**(+) 64 %**
13	**2012-13 #**	1,21,907	**22,423**	**(-) 36 %**
14	**2013-14**	1,47,518	**24,299**	**(+) 8%**
15	**2014-15 (Apr – Jan., 2015)**	**1,55,489**	**25,526**	-
CUMULATIVE TOTAL (from April, 2000 to January, 2015)		**11,99,920**	**2,43,229**	-
Note: ***Including amount remitted through RBI's-NRI Schemes (2000-2002).***				

The table 2 presents the FDI inflows in India from the year 2000-01 to 2014-15. The results discover that in the previous financial year there is an increasing trend i.e. 8 % over the preceding year. The result discerns that there is high variation in the inflows of FDI in India.

Table 3 Trend of FDI inflows in different sectors

S.No	**Sector**	**Amount of FDI Inflows**		**%age of Total Inflows**	**Ranking**
		(In Rs crore)	**(In US$ million)**		
1	Services Sector*	2,01,728.28	42,101.98	17.32	1
2	Agricultural Machinery	2,127.62	413.93	0.17	46
3	Agriculture Services	8,625.15	1,744.02	0.72	25
4	Air Transport (Including Air Freight)	2,720.46	562.65	0.23	41
5	Automobile Industry	60,725.08	11,857.11	4.88	6

6	Boilers And Steam Generating Plants	314.8	63.33	0.03	58
7	Cement And Gypsum Products	14,625.29	3,085.60	1.27	20
8	Ceramics	3,321.89	699.57	0.29	38
9	Chemicals (Other Than Fertilizers)	48,641.77	10,229.69	4.21	7
10	Coal Production	119.19	27.73	0.01	60
11	Coir	22.05	4.07	0	63
12	Commercial, Office & Household Equipments	1,516.81	309.34	0.13	47
13	Computer Software & Hardware	67,693.78	14,125.19	5.81	4
14	Construction (Infrastructure) Activities	14,807.38	2,923.64	1.2	21
15	Construction Development: Townships, Housing, Built-UpInfrastructure And Construction-Development Projects	1,12,916.36	24,028.19	9.88	2
16	Consultancy Services	13,908.16	2,786.52	1.15	23
17	Defence Industries	24.84	5.02	0	62
18	Diamond,Gold Ornaments	2,904.78	569.14	0.23	40
19	Drugs & Pharmaceuticals	63,629.47	12,856.02	5.29	5
20	Dye-Stuffs	417.28	74.38	0.03	55
21	Earth-Moving Machinery	1,138.86	234.81	0.1	49
22	Education	5,649.81	1,071.50	0.44	33
23	Electrical Equipments	18,298.41	3,786.22	1.56	17
24	Electronics	6,752.74	1,417.42	0.58	30
25	Fermentation Industries	11,347.67	2,137.36	0.88	24
26	Fertilizers	2,915.62	543.14	0.22	42
27	Food Processing Industries	36,360.11	6,215.46	2.56	14
28	Glass	2,362.19	459.16	0.19	44
29	Glue And Gelatin	211.68	37.86	0.02	59
30	Hospital & Diagnostic Centres	14,565.34	2,793.72	1.15	22
31	Hotel & Tourism	40,198.41	7,774.03	3.2	11
32	Industrial Instruments	310.86	67.11	0.03	57
33	Industrial Machinery	18,420.29	3,515.67	1.45	19
34	Information & Broadcasting (Including Print Media)	19,156.59	3,890.94	1.6	16
35	Leather, Leather Goods And Pickers	709.83	137.92	0.06	51
36	Machine Tools	3,511.68	711.51	0.29	37
37	Mathematical, Surveying And Drawing Instruments	39.8	7.98	0	61
38	Medical And Surgical Appliances	4,608.04	887.09	0.36	35
39	Metallurgical Industries	40,737.61	8,480.90	3.49	10
40	Mining	8,460.61	1,668.50	0.69	27
41	Miscellaneous Industries	42,392.57	8,975.05	3.69	9

42	Miscellaneous Mechanical & Engineering Industries	20,572.50	3,948.17	1.62	15
43	Non-Conventional Energy	18,524.21	3,521.78	1.45	18
44	Paper And Pulp (Including Paper Products)	4,327.04	910.25	0.37	34
45	Petroleum & Natural Gas	31,650.29	6,519.53	2.68	13
46	Photographic Raw Film And Paper	273.76	67.29	0.03	56
47	Ports	6,730.91	1,637.30	0.67	28
48	Power	46,358.87	9,512.02	3.91	8
49	Prime Mover (Other Than Electrical Generators)	6,299.78	1,200.92	0.49	32
50	Printing Of Books (Including Litho Printing Industry)	2,326.52	446.09	0.18	45
51	Railway Related Components	3,425.97	634.2	0.26	39
52	Retail Trading (Single Brand)	1,549.92	275.38	0.11	48
53	Rubber Goods	9,445.03	1,722.64	0.71	26
54	Scientific Instruments	960.98	171.98	0.07	50
55	Sea Transport	6,546.83	1,368.93	0.56	31
56	Soaps, Cosmetics & Toilet Preparations	4,430.06	848.74	0.35	36
57	Sugar	405.65	78.07	0.03	54
58	Tea And Coffee (Processing & Warehousing Coffee & Rubber)	497.78	108.41	0.04	52
59	Telecommunications	83,697.07	16,994.68	6.99	3
60	Textiles (Including Dyed,Printed)	7,710.42	1,555.69	0.64	29
61	Timber Products	537.09	101.93	0.04	53
62	Trading	41,315.28	7,660.73	3.15	12
63	Vegetable Oils And Vanaspati	2,861.12	541.65	0.22	43
	Sub Total	**11,99,386.19**	**2,43,106.84**	100	
64	**RbI's- NRI Schemes (2000-2002)**	**533.06**	**121.33**	**-**	
	Grand Total	**11,99,919.25**	**2,43,228.17**		

Table 4: FDI Share of organized sector in selected countries

Name of Country	% of Share
U. S. A	85
Japan	80
U.K.	66
Russia	36
India	04

(Source: Planel Retail & Technopak Adviser Pvt. Ltd.)

The Table 4 shows the FDI share of organised sector in five countries. The table discover that India have very little share i.e. only 4% share of total FDI inflows are employed in organised sector. U.S.A and Japan countries are employed 85 % and 80% respectively of their total FDI inflows in organised sectors. It presents the soundness of one economy. India should make vigilant planning to improve it organised sector so that economy will get some boost up.

Table 5: Projected Size of the Organized Retail Industry

Year	Size (in Crores)
2008	965
2010	1728
2015	5610
2022	17368

(Source: Planel Retail & Technopak Adviser Pvt. Ltd.)

The Table 5 presents the projected size of the organised Retail Industry in India, the results shows that in the period of 2008 India had very low size of organised sector. the table shows that the size of Indian organised sector is increasing at increasing rate. it is very good for the Indian economy. it is projected that in the year 2022, the size of Indian organised sector will be 17368 crores, which shows sound symbol of Indian retail industry.

CURRENT POSITION AND FDI NORMS IN INDIAN RETAIL

In 2010, the Indian retail market was valued at $435 billion of which the share of modern retail was 7 per cent. The sector is expected to grow to $535 billion by 2013 with the share of modern retail at 10 per cent. In 2007, India was ranked the twelfth largest consumer market and it is expected to be the fifth-largest consumer market by 2025 after the US, Japan, China and the UK (McKinsey & Company 2007). In 2010, India attracted the largest number of new retailers among emerging and mature markets (CBRE 2011). According to study conducted by ICRIER, total retail business in India will grow at 13% annually, from US $322 billion in 2006-07 to US $590 billion in 2011-12 and further US $1 trillion by 2016-17. A cap on foreign direct investment (or FDI) in sectors like retail and defence was a major hindrance for foreign business in either setting up their own shop in India or investing in an existing business. Further, for defence and construction development sectors, the lock-in period of investment is three years. Meanwhile, for most other sectors, this period is only one year. The government has allowed 100% FDI in the telecom and single-brand retail sectors. Further, the FDI limit of 26% in the defence sector has been raised to 49% under government approval route. FDI beyond 49% is also allowed on a case-by-case basis with the approval of the Cabinet Committee on Security.

KEY PERCEIVED OPPORTUNITIES

The following may be regarded as major perceived benefits of allowing FDI in retail in India:

1. **Capital Infusion**- This would provide an opportunity for cash-deficient domestic retailers to bridge the gap between capital required and raised. In fact FDI is one of the major sources of investments for a developing country like India wherein it expects investments from Multinational companies to improve the countries growth rate, create jobs, share their expertise, back-end infrastructure and research and development in the host country.

2. **Boost Healthy Competition and check inflation**- Supporters of FDI argue that entry of the many multinational corporations will obviously promise intensive competition between the different companies offering their brands in a particular product market and this will result in availability of many varieties, reduced prices, and convenient distribution of the marketing offers.

3. **Improvement in Supply Chain**- Improvement of supply chain/ distribution efficiencies, coupled with capacity building and introduction of modern technology will help arrest wastages (in the present situation improper storage facilities and lack of investment in logistics have been creating inefficiencies in food supply chain, leading to significant wastages).

4. **Improvement in Customer Satisfaction**- Consumers in the organized retail will have the opportunity to choose between a numbers of internationally famous brands with pleasant shopping environment, huge space for product display, maintenance of hygiene and better customer care. There is a large segment of the population which feels that there is a difference in the quality of the products sold to foreign retailers and the same products sold in the Indian market. There is an increasing tendency to pay for quality and ease and access to a "one-stop shop" which will have a wide range of different products. If the market is opened, then the pricing could also change and the monopoly of certain domestic Indian companies will be challenged.

5. **Improved technology and logistics**- Improved technology in the sphere of processing, grading, handling and packaging of goods and further technical developments in areas like electronic weighing, billing, barcode scanning etc. could be a direct consequence of foreign companies opening retail shops in India,. Further, transportation facilities can get a boost, in the form of increased number of refrigerated vans and pre-cooling chambers which can help bring down wastage of goods.

6. **Benefits for the Farmers-** Presumably, with the onset of multi-brand retail, the food and packaging industry will also get an impetus. Though India is the second largest producer of fruits and vegetables, it has a very limited integrated cold-chain infrastructure. Lack of adequate storage facilities causes heavy losses to farmers, in terms of wastage in quality and quantity of produce in general, and of fruits and vegetables in particular. With liberalization, there could be a complete overhaul of the currently fragmented supply chain infrastructure. Extensive backward integration by multinational retailers, coupled with their technical and operational expertise, can hopefully remedy such structural flaws. Also, farmers can benefit with the "farm-to fork" ventures with retailers which helps (i) to cut down intermediaries ; (ii) give better prices to farmers, and (iii) provide stability and economics of scale which will benefit, in the ultimate analysis, both the farmers and consumers.

7. **Creation of More and Better Employment Opportunities**- The entry of foreign companies into Indian Retailing will not only create many employment opportunities but, will also ensure quality in them. This helps the Indian human resource to find better quality jobs and to improve their standard of living and life styles on par with that of the citizens of developed nations.

KEY POTENTIAL THREATS

Critics of FDI feel that liberalization would jeopardize the unorganized retail sector and would adversely affect the small retailers, farmers and consumers and give rise to monopolies of large corporate houses which can adversely affect the pricing and availability of goods. They also contend that the retail sector in India is one of the major employment providers and permitting FDI in this sector can displace the unorganized retailers leading to loss of livelihood.

1. **Domination of Organized Retailers**- FDI in single-brand retail will strengthen organized retail in the country. These organized retailers will tend to dominate the entire consumer market. It would lead to unfair competition and ultimately result in large-scale exit of domestic retailers, especially the small family managed outlets (local "mom and pop" stores will be compelled to close down).

2. **Create Unemployment**- Retail in India has tremendous growth potential and it is the second largest employer in India. Any changes by bringing major foreign retailers who will be directly procuring from the main supplier will not only create unemployment on the front end retail but also the middleman who have been working in this industry will be thrown out of their jobs.

3. **Loss of Self Competitive Strength-** The Indian retail sector, particularly organized retail, is still underdeveloped and in a nascent stage and that, therefore the companies may not be able to compete with big global giants. If the existing firms collaborate with the global biggies they might have to give up at the global front by losing their self-competitive strength.

4. **Indirectly Leads to Increase in Real Estate Cost**- It is obvious that the foreign companies which enter into India to open up their malls and stores will certainly look for places in the heart of the cities. There shall be a war for place, initiated among such companies. It will result in increase in the cost of real estate in the cities that will eventually affect the interest of the ordinary people who desire to own their houses within the limit of the cities.

5. **Distortion of Culture:** Though FDI in Indian retail will indirectly or directly contribute for the enhancement of Tourism, Hospitality and few other Industries, the culture of the people in India will slowly be changed. The youth will easily imbibe certain negative aspects of foreign culture and lifestyles and develop inappropriate consumption pattern, not suited to our cultural environment.

POLICY SUGGESTIONS

Many foreign companies have already entered into Indian market through the available modes such as, Franchising and Exporting. They are much eager to change their entry to FDI that would strengthen their operations in India. However, if FDI in retail is liberalized by considering the following suggestions it is expected bring in more of benefits than threats to the country:

1. FDI should be initially allowed in less sensitive sectors and also in the sectors wherein the domestic companies are established strongly. Then FDI in retail should be liberalized in a phased manner like the case with China.

2. Entry of foreign players must be gradual with social safeguards so that the effects of labour dislocation can be minimized.

3. Adequate attention should be paid to procuring, staff recruitment, investments in warehouse, cold storage.

4. Infrastructure, competition and retail formats so that not only does the money comes in but also it's a win situation for the current national retailer as well as “mom and pop” stores who account for 70% of the retail business even after the arrival of national retailers from the corporate giants like the Tata, Reliance, Future Group and the Birla's.

5. The government should take initiatives to improve the manufacturing sector. If the manufacturing is strengthened, the displaced employees of the retail industry could be well accommodated there.

6. A National Commission should be set up to study the problems of the retail sector which should also evolve a clear set of conditionality on foreign retailers on procurement of farm produce, domestically manufactured merchandise and imported goods. This conditionality must state minimum space, size and other details like construction and storage standards.

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