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INFLOW OF FDI IN INDIAN RETAIL INDUSTRY: AN OVERVIEW

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Abstract:

Indian retail industry is emerging as one of the most attractive sector for the foreign investors. Despite of the changes and its contribution to the economy, retailing continues to be the one of the least evolved industry of Indian economy. The growth of Indian organized retail is much slower as compared to other countries. FDI is playing a considerable role in the growth and development of retail industry in India. It has an effect on a number of stakeholders engaged in the process of retailing that influence retailers to end consumers. Since 1991, Government of India has taken major initiatives to attract FDI in retail sector, through liberalizing its FDI policies. This paper presents an overview on the effect of FDI policies on retail sector of India.

Keyword: Retail industry, Foreign Direct Investment (FDI), Government of India (GOI)

Indian Retail & its Scenario

Indian retail sector is gradually inching its way towards becoming the next boom industry and is emerging as the most dynamic and fast paced industries of these times (Yuvarani, 2009). Retailing plays an important role in marketing channels as every year retailer's account for more than 4.5 trillion of sales of product. Retailer is the last stage in the movement of goods in distribution channel who passes on products from manufacturer and wholesaler to consumer by adding of services at convenient location and conducive environment of retail store.

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It is projected that this sector will account for almost 20 percent contribution in Indian GDP by 2020 and in terms of US $ the growth is expected to increased from 672 US $ billion to 1100 US$ trillion from 2017 to 2020. The retail market is expected to grow from USD60 billion to USD180 billion during FY15-FY20. The growth of Indian retail sector is registered as 13% CAGR in 2018 (IBEF, 2018). It contributes 22% in national GDP and 8% in employment generation (Vasani & Magdani, 2015). The retail spending in top cities of India is projected to $7,650 billion in 2019. This sector is experiencing exponential growth, due to the retail development taking place not just in major cities, but also in Tier-II and Tier-III cities (E&Y, 2014**).** The study reveals that increasing number of tier-2 and tier-3 cities play a significant role in enhancing supermarket space in the country (IBEF, 2018). As major states of India adopted smart city concept that indirectly provide a platform to retail industry to start up its business in these cities. According to the Global Retail Development Index Report, India is ranked on 1st in retail development in 2017 (AT Kearney, 2017).

The Indian retail industry is highly fragmented and divided into organized and unorganized sectors with a major share of its business being run by unorganized retailers characterized by traditional family run stores and neighborhood shops. Organized retail constitutes only 9 per cent of the total retail market and have high potential to gain a higher share in the growing pie of the Indian retail market in future (IBEF, 2018) present study shows that it accounts for an approximately 600 billion USD dollar market (Pwc, 2017). On the other side revenue generated from organized retail is expected to continue growing and projected to reach to $94.8 billion by 2019 (Crisil Research Estimated, 2014). It is attracting the global retailers/multinationals attention who believe that the next wave of growth in terms of revenue generation, reaching new customer segments, harnessing R&D and innovative skills come from developing countries and emerging economies like India, Mongolia, Sri Lanka and Indonesia (AT Kearney, 2012).

FDI in Indian Retail

FDI means investment by non-resident entity/person resident outside India in the capital of an Indian company under Schedule 1 of Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000 (Ministry of Finance, 2015).

Indian retail is one of the most hunted sectors that hold great potential for attracting FDI as foreign investors are extremely enthusiastic for investing in Indian retail sector. According to Survey, India stands as the fifth most attractive destination for international players (IBEF, 2018) and enjoyed the second highest growth in FDI inflow in the world during 2011. The cumulative amount of FDI inflows from April 2000 to February 2012 stood at USD 246.6 billion. The liberalization of the FDI policy in last decade has opened the Indian economy for foreign investments (Deloitte, 2011). In 2006 international retailers have been allowed to operate in India in joint venture with the domestic players under the approval of Foreign Investment Promotion Board (FIPB), 60 brands were set up for operations in India (PWC, 2011; BMI, 2012). According to the Department of Industrial Policy and Promotion, FDI inflow in the single-brand retail in September 2009 was US$ 47.43 million. In 2013, the government permitted 51 percent FDI in multi-brand retail with few caveats, but left implementation to individual states, which has made it hard for new retailers to form unified strategies for the Indian market as a whole. In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer must source 30% of its goods from India (ASA & Associates, 2012). These reforms paved the way for retail innovation and competition with international multi-brand retailers such as Wal-Mart, Carrefour and Tesco, as well single brand majors such as IKEA, Nike, and Apple. These positive steps encourage international brands to set up shop in India on other hand, this leads to competition among Indian players. In this situations consumers gains and the change in the market dynamics is not immediate but takes time to fructify (Murtaza, 2015).

FDI in Pre Reform Period

The government of India (GOI) followed a policy of “Close Door” till 1950s. In late 1960s and 70s it become restrictive and selective due to the improvement in the technical capacity of domestic industry and to manage the large scale outflows of foreign exchange from India because of remittances of dividends, profits, royalties and technical fees by foreign investors,on the other side it was found that the main motive behind adoption of restrictive attitude towards FDI during these periods was to protect growing industries of India from the threat imposed by private capital from outside country. It was found that the foreign products are going to be huge challenge for domestic industries to compete in domestic market.

In 1973 GOI adopted more restrictive approach towards FDI by enforcing the Foreign Exchange Regulation Act (FERA). FERA discriminated domestic and foreign investors more strictly. It made mandatory for foreign investors to convert their foreign equities to minority holdings (EPW, 2010, 2012).

FDI in Post Reform Period:

Policy towards FDI changed since 1991. Now it became the source of capital, technology and managerial skills that is considered vital factors for an open and competitive economy. There was a need to change the policies to attract a greater share of the world FDI inflows. With the introduction of Liberalization, Privatization and Globalization (LPG) India allowed foreign investment in nearly all sectors of the economy (Kaushik, 2012). During the economic reform it was supposed that FDI inflows would be more intense towards manufacturing sector that raise the domestic productivity that further leads to increase in production and revenues due to its strong backward and forward linkage effect. At that time retail was not considered as an attractive and promising sector for FDI. Because it assumed that it might spoil the local retails brand & interest. But gradually the government understood the importance of FDI in retail sector and opened retail sector for FDI in phase wise manner.

Table 1 Phases of FDI in Indian Retail Sector:

Years	**FDI Policy in Retail**
1990s	No FDI in retail
1995	World Trade Organization's General Agreement on Trade in Services, which includes both wholesale and retailing services came into effect

1997	FDI open in wholesale sale cash &carry brought under approval route
2006	FDI cash & carry brought under automatic route[1]. Apart it 51% FDI allowed in single retail under approval route[2]
2011	100% FDI permitted in single retail -brand through approval route. & 51% FDI allowed in multi brand by approval route
2017	Sourcing norms applicable for FDI relaxed and will not be applicable up to 3 (three) years from commencement of the business i.e. opening of the first store for entities undertaking single brand retail trading of products having 'state-of-art' and 'cutting-edge' technology.
2018	100% FDI permitted in single brand through automatic route

Source: Industrial Policy GOI 1980, 2010, 2012, Economic times (2018**)**

Table 1 shows the phases of FDI policies in Indian retail sector from 1990 – 2018. In 1990, India had no FDI policy in retail sector. After that with the establishment of WTO in 1995, a general agreement on trade and service was considered in retail that included both wholesale and retailing services. In 1997, FDI was opened in wholesale (cash & carry) through approval route. Further in 2006 wholesale was brought under the automatic route and on the other side 51% FDI was permitted in single retail brand under approval route.100% FDI was permitted single brand through approval route along with it significant step was taken in multi brand retail by opening the approval route up to 51% in 2011. Moreover, in 2017, GOI relaxed the sourcing norms & regulations in FDI policy in retail. It was an attempt to make business friendly environment for all foreign investors. The investors were given relaxation from state of art & cutting edge technology and from use the local sources up to first three years.

Thus, above discussion describes that it was a crucial step of GOI to integrate itself with the world economy through the member of World Trade Organization (WTO). It was not an easy decision for Indian government. There were various fears like job losses, procurement from international market, competition and loss of entrepreneurial opportunities. But on the side this

[1] Automatic route does not require any prior approval either of the Government or the Reserve Bank of India (RBI).

[2] Approval of the Government which are considered by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs, and Ministry of Finance.

step enabled the Indian retailers to be part of global retail market and provided an opportunity to know the global retail market scenario. Apart from it also offered the Indian consumers more choices in the form of branded goods and facilitated the greater inflows of investments that further help to improve the Balance of Payment (BOP) of Indian foreign trade. It also lead to the development of more competent and lower cost supply chains, resulting in better quality as well as better priced products for Indian consumers. This increased the consumer spending, which in turn, act as driving force for the growth of all sectors of the Indian economy.

On the other side there was a great concern in multi brand retail FDI, that by not allowing direct FDI in multi-brand retail, India was losing investment and Indian consumers are left with limited choices. To overcome this concern GOI allowed FDI in multi brand retail (51%) with conditions in 2011. To make India a more ease business going destination for global investors' government has relaxed some norms such as in starting phase (3 Year) foreign investors it is not mandatory to follow the "state of art" & "cutting edge technology" and using the local resources. These relaxations have positively affected the growth of FDI in Indian retail.

Table 2: Growth in FDI in Retail Sector

Sector	April 2000 to March 2016	April 2000 to March 2015	Increase in 2015-2016
Retail	537.61(USD Million)	275.38 (USD Million)	262.23(USD Million)

Source: PricewaterHouseCooper, 2018

Table 2 shows the growth of FDI in Indian Retail as it can be depicted from the data that in 2015 to 16 there had been a tremendous growth in FDI in the retail sector, the growth was about 262.23 USD million. It revealed that recent FDI retail policy brought India a more competitive and attractive market for foreign investors and utilized the potential growth of Indian retail sector. The Indian retail registered significant growth during the last decade shows a promising growth of Indian retail industry in near future.

So, the studies describes that gradually Indian FDI policy in retail was designed to attract the foreign investments in production and marketing, and focused on improving the availability of consumer goods, as well as enhancing the competitiveness of Indian retail industries through the global access. Moreover with the development of global economy FDI considered as a powerful mechanism to increases competition in the retail industry. This became necessary to boost Indian retail sector because it was suffering from low competition and poor productivity.

In this regard the FDI policy in retail was adopted to allow Indian consumers access to foreign brands. Various studied shows that Indians spend much money on shopping abroad in comparisons to the rest of the world consumers. These steps of GOI enable them to spend the same money on the same goods in India. It has been found that till May 2010, 94 proposals have been received out of which 57 proposals were approved. Since April 2006 to September 2010 FDI inflow in retail (single brand) was registered US$196.46 million that comprised of 0.16 per cent of the total FDI inflows during this period (Kearney, 2008).

Managerial Implication:

India seem to be suffering from lots of self-imposed constrains and problems concerning to open its markets to global investors. There are some reasons behind the poor performance of Indian retail sector such as political instability, poor infrastructure, confusing tax and tariff policies, labour laws, and governmental regulations. Thus, there is need of initial and desirable action by the industry as well as GOI to utilize the full potential productivity of retail sector in India. Apart from it Indian retail sector need a national policy for retail to complement growth of various channels that not only promote the growth of domestic but also the foreign investments in this sector. A conducive regulatory environment for retailers will help build ‘New India’, benefiting consumers, industry and economy at large with it government need to initiate policy like “Make in India” retail category with liberalized FDI policy that boost the potential growth of this sector.

The composition of the retail industry is transforming with the change in the global economic scenario. Government of India (GOI) is working continuously on reviewing the FDI policy on retail sector that will surely benefit the industry in the long run. In its recent FDI policy government has taken various steps to attract FDI in retail. India has more favorable conditions for FDI in retail than any other countries of the world because of growth in discretionary income, changing lifestyle ,initiatives in tax reform area goods and services tax such as implementation of GST also has an affects the FDI in Retail as it will change the rules & regulations and business landscape to a large extent. For instance there will be a lowering of logistics costs after GST's implemented due free movement of goods across the state borders. It is expected that the idling time at check-posts for clearance of goods across the state borders will come down, that will speed up the logistics movement of goods. This will be certainly a timely advantage for the global companies and as well as domestic companies. This will further lead to development of business friendly environment. It will not only attract FDI in the retail sector but also help to start up new innovation (Yojna, 2018). hence government should focus on it and if the inflow increases the Indian Retail companies will flourish and which will further lead to better supply chain structure, better cash flows, pricing, and profitability.

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