

ANALYSIS OF OPPORTUNITIES AND CHALLENGES

RELATED TO FDI IN RETAIL SECTOR OF INDIA

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Abstract

In the current scenario the retail industry is one of the fastest growing industries in the country, as a huge amount of growth has been witnessed in the new millennium and it is expected to grow multifold in the near future. The highest amount of growth has been witnessed since the allowance of FDI in the same. This is because of the reason that many of the multinational and multi brand companies are eager to invest in India. This is because of the reason that India is having a great potential to absorb the products and services offered by these international retailers, by the virtue of its large population and growing middle class. This has been proved by the number of researchers that the retail industry has contributed a lot in the economic development of the country but then again India is way behind as compared to other foreign countries. The issue of opening of retail sector for FDI is most controversial concern in recent time. As the Indian retail sector is vast thus FDI in such forum is a big challenge which is the purpose of present paper.

Key words: FDI, Indian Retail Market, economy, Growth.

Introduction

In the current scenario, we Indians are literally living in a global village and every product or service is available to us on click of a button at our door steps but still the demographic status of the country suggests that even today customers are having positive inclination towards the local 'Mom and Pop' stores or towards the unorganized retail sector. There are a number of reasons for this inclination, like easy availability of daily need items, availability of credit, personal relation with the store owner, etc. looking at the big picture we find that even today more than 60% of the population resides in the rural and semi-urban areas. Competing with all such issues the organized retail sector is growing in the

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country like never before, thanks to the policies of respective governments. [1]

Having a view of unorganized retail in the above section we can say that the organized retailing involve the activities carried out by the retailers who are bearing a license for the same and are liable to different type of taxes. [2]

In the last two decades the multi-fold growth of the Indian retail sector has been witnessed, this is the result of successfully established models of organized retail in all of the Asian markets such as China, Bangladesh, Nepal, Pakistan had carved the way for the establishment of organized retail in India as well. In continuation of the same the domestic retail giants, like the Future Group, Aditya Birla retail who have set up exclusive outlets across India. As per the records of Investment Commission of India, the expected growth of the Indian retail sector, by the year 2018 is around \$697 billion. [3]

By the virtue of current policy of 100 percent FDI in wholesale cash-and-carry trading is permitted. In single-brand retailing, 100 percent FDI is allowed while it is prohibited to 51 percent in multi-brand retailing. The question arises whether to increase FDI in multi-brand retail up to 100 percent will generate problems or create opportunities. [4] There are no proper answers and sufficient suggestions have been expressed in favour and against of FDI. In this Paper, an attempt is made to discuss the policy frameworks for FDI in Indian retail sector as well as to know the future trends associated with FDI in retail segment. [5]

Evolution of Indian retail Market

Year	Timeline
Before Independence	Hats and Melas
1950 to late 70s	Emergence of Organized Retail
Till 1984	Opening of Branded Retail outlets
Till 1990	Modern Malls
1992-2005	High end expansion of retail chains
2005-2010	Modern Malls and Hypermarkets
Present Scenario	FDI in multi-brands

FDI Allowed in Different Sectors in India

Sector	FDI Limit
Agriculture	100%
Civil aviation	100%
Courier service	100%
Credit rating	74%
Defense	100%
Education	100%
FM radio	26%
Insurance	49%
Multi brand	51%
Pension	49%
Pharma	100%
Power	49%
Print media	26%
PSBs	20%
Pvt bank	20%
Railway infrastructure	100%
Single brand	100%
Stock exchange	49%
Telecom	100%
Tourism	100%
Food products	100%
Private Security	49%

Impact of FDI in Retail Sector

SME: The foreign player, they shall purchase 30% of the product they deal with the Small and Medium Enterprise. This ensures the development of SME. The foreign player would like to provide the quality product. The SME would be encouraged to produce the commodity that is of high quality.

Infrastructure: The players are imposed with the restriction of investing 50% of their investment. The ruling party in India where the economic development is suffered by lack of infrastructure is very cautious about to invest in such area.

Distribution: The distribution system is one of the factors determining the cost of the product. As they are invested in the infrastructure, they could follow JIT. Say Wal-Mart, they are not interested in expending in the stock maintenance.

GDP: The decline in the GDP mainly due to the agriculture sector is making the economist worry more. The FDI in retail would improve the GDP by, economist say 0.5%. The booming industry that has potential capacity would contribute the GDP higher.

Employment: The more employment would be created in the country either directly or indirectly where youth pass out is increasing as much as creation of employment. It would be generated in the agriculture, manufacturing, service industry which consists of GDP. The more people get employed would rehabilitate the economic cycle.

Review of Literature

- **Naik, 2014:** the researcher had identified technology and the skills of the labor as the key contributing component in attracting the foreign investment in the Indian retail sector, since the allowance of FDI in the retail sector the infrastructure of the retail industry in the country has improved a lot, and as a result India is liable to invest in the other countries as well.
- **Patibanda, 2013:** conducted study to know the importance of different tariffs and taxes on the inbound FDI from other foreign countries. The study revealed that most of the policy measures in the current scenario are having a positive impact on the same.
- **Guruswamy, M. et al., 2007:** India retail industry can be segregated into organized and unorganized sectors. consist of the traditional formats of low-cost retailing like local kirana shops owner, general stores, paan/beedi shops, hand cart and pavement vendors, etc. distorted real-estate market, poor infrastructure and inefficient upstream processes, lack of modern technology, inadequate funding and absence of skilled manpower are the characteristics of Unorganized retailing.
- **Joseph and Soundararajan 2009:** There are many variables of traditional outlets which influence the choice of retail store such as nearness to residence, easy availability of credit, convenient timings, possibility of bargain, etc.

Objective of the Study

The basic objective of the present research is to determine the structure of organized retail sector in India and also to investigate respective issues and challenges related to FDI in the Indian retail market.

Research Methodology

Keeping in view the topic of this study, exploratory research method is used, where the secondary data is taken as the base for this study. This includes the various reports published by the different liable agencies, statistical data published in various government and non-government publications.

Evolution of FDI in Indian Organized Retailing

By the virtue of the LPG in 1991, and India becoming a member of WTO, the organized retail market was unlocked from the year 1995, for the international investors. There were many arguments regarding opening of this sector due to apprehension of job losses, procurement from international market, competition and loss of entrepreneurial opportunities. [8] The phase wise development of FDI in the Indian organized retailing can be seen in the diagram given below:

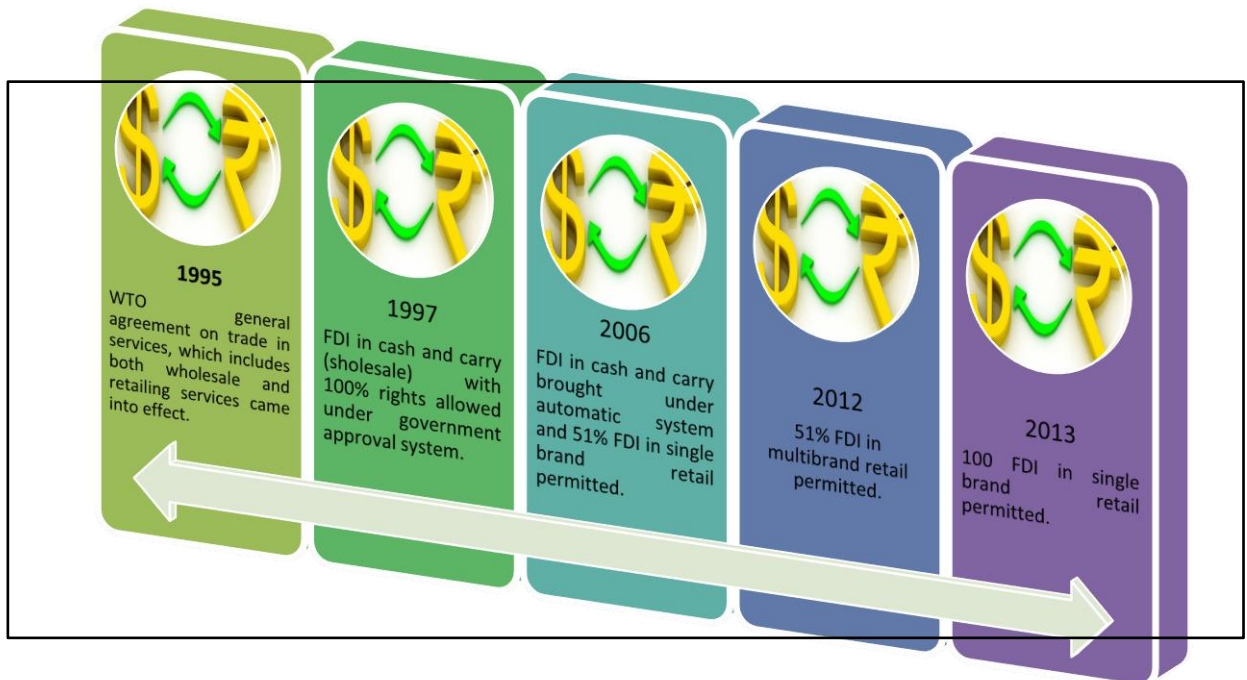


Fig. 1: Evolution of FDI in Indian Organized retail Sector

Data Analysis**Table 1: Country-wise FDI Inflows - Top 10 Countries**

Amount Rupees in Crores (US\$ in Millions)

Ranks	Country	2015-16 (April - March)	2016-17 (April - March)	2017-18 (April,17- March,18)	Cumulative Inflows (April, 00 - March ,18)	%age to total Inflows (in terms of US \$)
1.	Mauritius	54,706 (8,355)	105,587 (15,728)	102,492 (15,941)	688,442 (127,578)	34%
2.	Singapore	89,510 (13,692)	58,376 (8,711)	78,542 (12,180)	393,584 (66,771)	18%
3.	Japan	17,275 (2,614)	31,588 (4,709)	10,371 (1,610)	152,630 (27,286)	7%
4.	U. K.	5,938 (898)	9,953 (1,483)	5,473 (847)	131,018 (25,438)	7%
5.	Netherland s	17,275 (2,643)	22,633 (3,367)	18,048 (2,800)	135,215 (23,482)	6%
6.	U.S.A	27,695 (4,192)	15,957 (2,379)	13,505 (2,095)	124,037 (22,417)	6%
7.	Germany	6,361 (986)	7,175 (1,069)	7,391 (1,146)	59,435 (10,845)	3%
8.	Cyprus	3,317 (508)	4,050 (604)	2,680 (417)	49,411 (9,573)	3%
9	France	3,937 (598)	4,112 (614)	3,297 (511)	33,934 (6,237)	2%
10.	UAE	6,528 (985)	4,539 (675)	6,767 (1,050)	32,953 (5,754)	2%
TOTAL FDI INFLOWS FROM ALL COUNTRIES *		262,322 (40,001)	291,696 (43,478)	288,889 (44,857)	2,075,911 (376,848)	-

Source: Government of India (GOI) (2013). FDI Statistics, Ministry of Commerce & Industry, Department of Industrial Policy and Promotion

Table 2: Sector-wise FDI Inflows - Top 10 Sectors (From 2010-2013) in Rs. Cr. (US Million Dollar)

Rank	Sector	2015-16 (April - March)	2016-17 (April - March)	2017-18 (April,17- March ,18)	Cumulative Inflows (April, 00 - March , 18)	% age to total Inflows (In terms of US\$)
1.	SERVICES SECTOR **	45,415 (6,889)	58,214 (8,684)	43,249 (6,709)	359,817 (66,185)	18 %
2.	COMPUTER SOFTWARE & HARDWARE	38,351 (5,904)	24,605 (3,652)	39,670 (6,153)	176,459 (30,823)	8 %
3.	TELECOMMUNICATIO NS	8,637 (1,324)	37,435 (5,564)	39,748 (6,212)	169,912 (30,158)	8 %
4.	CONSTRUCTION DEVELOPMENT: TOWNSHIPS, HOUSING, BUILT-UP INFRASTRUCTURE	727 (113)	703 (105)	3,472 (540)	118,111 (24,833)	7 %
5.	AUTOMOBILE INDUSTRY	16,437 (2,527)	10,824 (1,609)	13,461 (2,090)	105,679 (18,763)	5 %
6.	TRADING	25,244 (3,845)	15,721 (2,338)	28,078 (4,348)	112,635 (18,559)	5 %
7.	DRUGS & PHARMACEUTICALS	4,975 (754)	5,723 (857)	6,502 (1,010)	82,322 (15,717)	4 %
8.	CHEMICALS (OTHER THAN FERTILIZERS)	9,664 (1,470)	9,397 (1,393)	8,425 (1,308)	77,377 (14,601)	4 %
9.	POWER	5,662 (869)	7,473 (1,113)	10,473 (1,621)	70,559 (13,210)	4 %
10	CONSTRUCTION (INFRASTRUCTURE) ACTIVITIES	29,842 (4,511)	12,478 (1,861)	17,571 (2,730)	77,946 (12,547)	3 %

Source: Government of India (GOI) (2013). FDI Statistics, Ministry of Commerce & Industry, Department of Industrial Policy and Promotion

Table 3: Role of FDI in Economic Development of the Country Yearly flow of FDI and GDP_{FC}

Year	FDI Inflow (in Rs. crore)	GDP at factor Cost
2000-2001	10733	1118586
2001-2002	18654	1301788
2002-2003	12871	1447613
2003-2004	10064	1668739
2004-2005	14653	1847273

2005-2006	24584	1991982
2006-2007	56390	2167745
2007-2008	98642	2338200
2008-2009	142829	2622216
2009-2010	123120	2971464
2010-2011	97320	3390503
2011-2012	165146	3953276
2012-2013	121907	4582086
2013-2014	147518	5303566
2014-2015	189107	6108903
2015-2016	262322	7266967
2016-2017	291696	8353495
2017-2018	288889	9461979

Result of Correlation Analysis

Results: considering the above Table: 3, w.r.t. correlation analysis between the FDI inflow and GDP at factor cost, yearly starting from, 2001 to March 2018, {this is a well known fact that 1991 is the year of the announcement of last industrial policy, *amendments of the 1990 industrial policy*, and the introduction of LPG (*Liberalization, Privatization and Globalization*)}.

For the given 18 years it was found that the *correlation coefficient is approximately .9*, which states that the *FDI and the GDP at factor cost are positively correlated at a high degree*, and in both the variables are increasing in the same direction.

Conclusion

The long term economic development of the developing country like India requires a number of platforms like FDI, as it is an important source of capital and also presents a high amount of competition for the domestic players. On the other hand the transaction of technology, high yielding retail products, increased employment and improved infrastructure are the other allied benefits. It can be stated that in developing economy FDI can be considered as the life and blood for different sectors and retail is one of them.

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