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FOREIGN DIRECT INVESTMENT AND RETAIL SECTOR IN INDIA: AN ANALYSIS

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ABSTRACT

This paper provides detailed information about retail sector in India & foreign direct investment (FDI) in retail in the Indian market. Foreign direct investment (FDI) plays an important role in the Indian economy. The Indian retail industry is the industry of opportunities & developments. According to the investment commission of India (ICI), the Indian retail sector will increase up to $660 billion in 2015. This paper attempts to present the progress of the retail sector in India and opportunities for retail stores in Indian market. It also tries to highlight the recent trend of the foreign direct investment in Indian economy and the effect of the foreign direct investment on organized and unorganized Indian retail sector. At last it includes the perception of small retailers about foreign direct investment in retail. The paper focuses on the FDI in Indian retail sector,

Keywords- retail sector, Foreign Direct Investment, organized sector

Introduction:

Foreign investments have been very helpful for the developing countries in last two decade. There are various sectors in which foreign player are interested to enter and retail sector is one the most attractive sectors for them. The retail sector has been contributing a significant amount in the GDP of India. Foreign direct investment helps in economic development of a country. India is a growing economy and is considered attractive market to invest in, especially in rapidly growing retail market. However, there are some policy issues and restrictions in foreign direct investment in the retail sector in India. Even after so many years of debate, the regulations are still changing slowly with lots of uncertainties. Foreign investors are having close eyes on India and ready to enter into it. But it is still having restrictions, socio-economic risks and uncertainties.

FDI Trends in Indian Retail Sector

FDI policy plays a major role in the economic growth of developing countries around the world. The government of India has been considering opening up the retail business to FDI. Many other sectors have been exposed to FDI, the retail sector has had to wait for quite some time due opposition from political parties, including ally Trinamool Congress, UPA II and various trade organization. FDI will be a powerful catalyst to the growth of retail industry (The Siasat Daily, 2012). In 1995, the general agreement on trade in services with World Trade Organization (WTO) opened FDI for wholesale and retailing services. In 1997, FDI cash and carry (wholesale) with 100% rights was allowed with government approval. There had been a greater momentum in the retail sector since 2006 as the Government of India liberalized FDI policies. The FDI policy in cash and carry (wholesale) brought under the automatic route and in single-brand 51% investment was permitted in 2006. On November 24, 2011, the Government of India announced that it had approved 100% FDI in single brand retail with government permission and 51% in multiband retail subject to a number of conditions.

FDI will be allowed at up 51 percent foreign equity subject to government approval on Multi-brand retails. A foreign company's initial investment must be at least $100 million and at least 50 percent of which is required to be in back-end infrastructure like supply-chain operations. Investors will have to source 30 percent their products from "micro and small" industries with not more than $1.0 million in capital investment. Foreign direct investment will be allowed in retail stores only which operate in cities with populations of over one million.

LITERATURE REVIEW

N.V.SHAHA AND M.A.SHINDE [1] conducted a research study on "FDI in Indian retail sector". In this sector and assessed the impact of FDI on various parties related to retail sector. They observed that because of permission given to the FDI in multi brand retail will impact not only to the unorganized sector but also to the organized sector. They are of the view that there should be necessary training of the modern trade to the employees of unorganized sector.

Dr. R. Renuka, Dr. M. Ganesan and Dr. M. K. Durgamani **[2]** in their research investigated various trends in FDI in different sector in India. They found that the advantages of permitting FDI in the retail sector outweigh the disadvantages attached to it. Opening of the retail sector may be a solution for food inflation as it would help in much required back end infrastructure.

Chandu K. L [3] in his study on "The New FDI policy in Retail in India: Promises, Problems and Perceptions" thrown some light on FDI in Indian retail sector. He examined the FDI policy on Indian retail sector over the years and focused on small retailer's perception about FDI.

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[4] Conducted a research on "FDI in multi brand retail in India. They observed that permitting FDI in multi brand retail will be leading to significant improvement in India's GDP and overall economic development. The main reason to allow FDI in multi brand retail is inflation. One side the foreign giants will build backend infrastructure that will help to cut waste and on the other hand they will help to narrow down the current account deficit.

Rajib Bhattacharyya [5] in his research analyzed the current retail scenario in India. He investigated the controversial views of the various stakeholders and evaluated the likely challenges and threats of FDI in both single and multi-brand retail in India. he suggested that 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 procurements of farm produce, imported goods, domestically manufactured merchandise.

METHODOLOGY OF RESEARCH

The major part of this research paper is based on secondary sources of data. The data has been collected by using various Economic Surveys of India and Department of Industrial Policy & Promotion which is functioned under Ministry of Commerce &Industry, articles, journals, newspapers, RBI bulletin etc. In order to observe the perception of the small retailer about FDI policy, there is a properly structure survey questionnaire. This survey was done on 50 small retail outlets (turnover-10-20 lakhs) in Jaipur city of Rajasthan using convenient sampling method.

Retail:

The general meaning of the term Retail is 'Transformation'. It is the interaction between the producer of the product and the ultimate consumer who purchase goods for personal consumption. When we talk about supply chain, retail is the last step that connects the manufacture with ultimate consumer. Retailer is a person who sells product to the individual customers at a profit.

Indian retail market:- Retail sector has been the backbone of Indian economy in previous decade and its contribution to the Indian GDP is around 15%. Some business analysts have predicted that retail sector in India will increase at a fast pace as compared to the other countries. Indian government has allowed FDI in multi-brand retail in November 2011. The Indian retail sector can be classified into two different ways ***Organized retailing-*** Organized retailing includes modern trade activities which are done by the licensed and registered retailers. These include corporate backed retail chains and hypermarket which are registered for sales tax.

Example: - Malls, Supermarkets, Hypermarkets

Un-organized retailing- It is concerned with low cost retailing like owner operated general stores, Kirana shop and paan/beedi shop. **Example: -** Kirana shops, paan/beedi shops, Local markets of vegetable, street vendors etc.

Size of the Indian retail:- The Indian retail sector was of more than US $470 billion in 2011 but major portion belongs to the unorganized sector. The organized sector has gained the momentum in the last few years. Many international brands have entered into the market. Unorganized retailers have started changing their model to compete with organized retail giants.

According to the Technopak studies the total retail in India will grow at 7.5% annually, from US $310 billion in 2006 to US $470 billion in 2011 and further US $675 billion in 2016.

Types of retailing in India

a. **Single brand** it is concerned with a retail store selling a single brand with foreign investment. For example, if Nike were to obtain permission to retail its product in India, those retail stores could only sell product under the Nike brand and not the Reebok brand.

b. **Multi brand** it implies that a retail store can sell multiple brand under one roof. By opening up FDI in multi brand will allow foreign giants like Wal-Mart, Tesco and Carrefour to offer a wide range of product of household items and grocery directly to consumers.

MAJOR INDIAN RETAILERS:

Currently India has 8-10 big retailers in the domestic market. Some of the examples of the major retailers are Big Bazaar, More, Pantaloons and Reliance Retail. They deal in all kinds of the formats. It includes food & grocery, clothing, beverages, foot wear, furniture, furnishing, entertainment, healthcare, jewelry and home appliances. Big Bazaar which deals in all kinds of goods is the biggest Indian retailing chain run by future group. Future group has some more retail outlets formats like food bazaar, pantaloons, central, and e-zone which deals in electronics items.

Reliance Retail formats includes Reliance Fresh, Reliance Digital and Reliance Trendz. The reliance outlets deal in all kinds of items. Reliance jewels sell all the type of jewelry like gold, silver, diamond and reliance foot prints is a showroom which deals in all types of footwear.

MAJOR GLOBAL RETAILERRS:

Wal-Mart:-

Wal-Mart is run by the American multinational retail corporation which has chain of large discount stores and warehouse stores. Wal-Mart is the largest retailer in the world and also ranked second largest public corporation in terms of revenue by the fortune global list of 2013. Wal-Mart is having around two billion employees across the world. Wal-Mart is the world largest retailer and the company is run by the Walton family. It’s a family owned business and the Walton family having 48 % stake in the business or in the Wal-Mart.

Wal-Mart’s investment in the countries like United Kingdom, South America and in china was highly successful and in North America they have mixed results. While in the countries like Germany and South Korea the company’s strategies were unsuccessful. After a huge analysis they were interested to enter in the country Korea with different strategies. They want to attract the Korean market by building stores in the places where the price of land was very low and the company was expecting to drive Korean people to the stores but again all strategy and the location which was chosen by Wal-Mart cannot match Korean lifestyle and was unsuccessful and company has faced many challenging situations in Korean market and pack up from the Korean market in 2006.

Wal-Mart in Indian market:

Since long time Wal-Mart is trying to enter into Indian market. They entered by the joint venture with the Bharti enterprises. Bharti enterprise comes in India's leading groups which have interests in the retail, agri-business, insurance etc.

An agreement is signed under which both the ventures hold 50-50 % stake in the Bharti Wal-Mart private limited. The company's first wholesale cash and carry facilities was named as "Best Price Modern" and was opened in Amritsar in May 2009 and after that open at different places like Zirakpur, Jammu, Guntur, Indore, Ludhiana, Raipur, Meerut, Agra, Amravati, Vijayawada. Now both Bharti and Wal-Mart have called their joint venture off.

Carrefour:

The Carrefour is the one of the world largest hypermarket chain in the world and stands in the second position in the world after the Wal-Mart. But in terms of revenue in the world, Carrefour is at the third position after the Wal-Mart and Tesco. Carrefour hypermarkets chain headquartered from Boulogne, France which is in greater Paris. The meaning of Carrefour is "Crossroads "in French. Previous and present office is located in greater Paris of Carrefour. Company mainly operates from following countries like China, Brazil, Argentina, United Arab Emirates, Colombia, Saudi Arabia, and some parts of Asia also with moat of stores of smaller size like supermarkets and hypermarkets. ***Carrefour in Indian market:-*** The group opened its first cash and carry wholesale store in India around in 5200 square feet, which is named as "Carrefour wholesale cash and carry" in east of New Delhi. The group's strategy was to be in the emerging market that offers the medium and the long growth opportunities for future. Carrefour group head office of India is located in Gurgaon. ***Tesco:-*** About the Tesco group it is the British multinational grocery and general merchandise retailer group which is operated from United Kingdom headquarter is in Cheshunt. Tesco stands in the third position in the terms of revenue after the (Wal-Mart and Carrefour) and it is measured as the second largest retailer in the terms of the profits. The group operates in 14 countries worldwide ***Tesco in the Indian market:-***

Tesco group opened a first cash and carry wholesale business with the assistance of Tata group in Mumbai in 2008. Tesco is limited to service center in Bangalore and outsourcing. In India Tesco operates in the business, I.T, financial services, property aspects. Tesco is one of the retailer group in India which has fully –owned support center. Tesco is the world's most preferred retail stores internationally and worldwide

FDI & INDIAN ECONOMY

The developed countries consider foreign direct investment as a route for market access in the developing countries so that they can maintain their economic growth and development. Developing countries consider it as an opportunity for their own technological and economic growth. Hence foreign direct investment is good for the economy of both counties. The foreign direct investment is an instrument of filling the savings, foreign exchange reserves, and technological barriers for developing economies.

a) FDI inflows in India:-

The table I give the information about the in-flows of the foreign direct investment in last twelve years. Here we can see the highest increase in the year 2007-08 & 2011-12 as compared to previous year. We can also observe that because of some policy issues which has sent wrong signal to foreign investors FDI amount has decreased in 2012-2013.

Table: 1- FDI Inflow

Years	Amount of FDI- inflows (Crores)
2000-01	10733
2001-02	18654
2002-03	12871
2003-04	10064
2004-05	14653
2005-06	24584
2006-07	56390
2007-08	98642
2008-09	142829
2009-10	123120
2010-11	88520
2011-12	173947
2012-13	139004

Source: Economy survey 2011-2012

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b) - Gross Domestic Product (GDP) of India:-

Gross domestic product is important parameter to measure the growth of the any economy. The Indian economy has grown very rapidly since 1991, when India joined the elite group of 12 countries with trillion dollar economy. India achieved a growth rate of 9% in three successive years and it has also touched the 10.10% mark in 2006.

India's diverse economy has capacity to attract the FDI inflows as it has low wage rate, large human capital and big market size. In the current decade Indian economy experienced different level of economic expansion and also realized healthy growth of trade.

Table: 2 -GDP at Factor Cost

Years	GDP at factor cost (crores)
2000-01	1864228
2001-02	1972605
2002-03	2048290
2003-04	2222760
2004-05	2488769
2005-06	2616102
2006-07	2871120
2007-08	3129718
2008-09	3339384
2009-10	4507639
2010-11	4885956
2011-12	5202515
2012-13	5503476

Source: Press Information Bureau, Govt. of India

c) Foreign exchange reserves in India:-

Indian foreign exchange reserves consist of gold, foreign currency assets, special drawing rights and reserve tranche position in the international monetary fund (IMF). The emerging countries like BRICS (Brazil, Russia, India and China) countries are holding the largest foreign exchange reserves globally and India is in the top 10 nations in terms of foreign exchange in the world.

Table: 3 -Foreign Exchange Reserve

Years	Foreign Exchange Reserve
2000-01	197204
2001-02	264036
2002-03	361470
2003-04	490129
2004-05	619116
2005-06	676387
2006-07	868222
2007-08	1237985
2008-09	1283865
2009-10	1259665
2010-11	1361013
2011-12	1506130
2012-13	1789532

Source: Reserve Bank of India.

Here, we can see that foreign direct investment has been increasing every year. This directly or indirectly is helping the GDP of our country. At the same time FDI is helping India to increase its foreign exchange reserve. When foreign investors invest in India, they bring foreign exchange to India. It also helps to narrow down the balance of payment problem.

ADVANTAGES OF FDI

We can see that the developed economies are now looking for new destinations, where they can invest money and get good returns. FDI is the one of the tool of investment for the developed countries. FDI can be a powerful catalyst to dynamic competition in the Indian retail industry, due to the current scenario of poor productivity and low competition.

1-Required for constant growth: - FDI is the major source of investment for developing countries like India, with the help of this kind of investment from outside it helps the country to improve the growth rate, improve the technology, create jobs, and bring the method of research and development.

2- Improved technology and logistics: - The FDI helps to improve technology in the area of the processing, grading, handling and packaging of material and additional technical progresses in areas like selling could be a direct effect of the FDI. The transportation facilities also can get a boost, in the form of the pre-cooling chambers and refrigerated vans which can help to reduce the wastage of foods.

3- Impact on real estate development: - Retail is closely proportionate to the real estate, as any retailer requires enough space for setting up business. Real estate is already on high side due to the demand of the various retail malls and the change in the thinking of people towards the shopping in malls. So FDI can give the further boost to the real estate sector.

4- Advantages for the farmers: - India as the second largest country in world in terms of production of fruits and vegetables. India has very limited storing facilities like cold chain storage plant. Due to this the farmers are under heavy losses. The FDI can help in that area to improve the whole system of storage so that farmers can get better price.

5- Job creation: - the supply and logistics are the backbone of the retail industry so lots of men are require for the supply and logistic chain. The managerial position will open up. The technological and software needs changed due to the improvement in the technology so it will require another man power's to prepare the software's.

CHALLENGES & THREATS

We can expect many challenges and threats to the domestic retailers, foreign players and for the economy. But at the same time it gives the opportunity to raise our standards in different areas like supply chain, distribution and selling. The Government can restrict and regulate their activities via many mediums.

1-Threats to domestic retailer: - retail in India has tremendous potential. Retail sector is already the second largest employer in India after the agriculture and we make change in the present model by bringing major foreign retailer who will be directly dealing from the main supplier to maximize the profit. It can lead to unemployment on the front end as well as in middle processing chain. That can influence the Government policies and increase employment problem in long term perspective. It would lead to unfair competition and finally lead to large scale exit of local retailers, like self-managed stores, so it leads to large scale unemployment in retail sector.

At the same time the growth of manufacturing sector is not high enough to accumulate these people.

2-Threats to the foreign investors: - India is famous for red-tapism and due to this the interruption in decision making regarding the investment. This can create disinterest in foreign corporate giants because they expect quick decision from Government. The other major anxiety is the corruption. India has number of anti-corruption acts and agencies, but it does not work efficiently.

3-Distortion of culture:-foreign direct investment will directly or indirectly lead to the enhancement of tourism**.** It may change slowly change the culture of people in India. The youth may easily imbibe certain negative aspect of foreign lifestyle and culture. It might lead to inappropriate consumption pattern which may be different from our culture***5- Job creation: -*** the supply and logistics are the backbone of the retail industry so lots of men are require for the supply and logistic chain. The managerial position will open up. The technological and software needs changed due to the improvement in the technology so it will require another man power's to prepare the software's.

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ANALYSIS AND INTERPRETATION

The above survey questionnaire has been structured with a view to draw out the perception of small retailers on the foreign direct investment in retail sector as FDI will increase the competition in the market which will directly affect the profitability of unorganized sector. Survey shows that 85% retailers feel that big stores will not offer the product at cheaper price. They think that high establishment cost and recurring expenditure will make the big players to price the product high. Half of the respondents think that FDI will increase the completion in the market but at the same time they also think that big players will bring more customers in the area which will help small store also. Majority of the respondent (70%) believes that FDI will not affect their customer base. Majority of people also denied that FDI will affect their turnover in terms of sales. 90% of the respondent said that they have their unique selling strategy which will help them to retain their customer base in competitive environment. But at the same time they (95%) said they do oppose the foreign direct investment in retail sector. Majority of the small retailer (70%) thinks that foreign player will not be successful in Indian market. Foreign players might get attention in short run but in long run they will not be in trouble.

SUGGESTIONS

The Indian economy needs policy reforms so that it can maintain the growth and development. It needs to think logically and liberally. Here are some suggestions as follows:

1. The small retailers (unorganized sector) should bring some change in their appearance, affairs and attitude. These small retailers can form consortium and make bulk purchase. This will lower down their cost of purchase.

2. Every state should set a monitoring committee to keep watch on the operations of foreign retailers. This committee should ensure that proper investments are made by the foreign entities in the area of transportation & logistics and cold storage.

3. A high level national commission should be set up to study the advantages and disadvantages of the FDI in retail sector. So that they can provide their valuable suggestions to the Government.

4. The policy makers should make such polices in which the foreign investment can be used for enhancing domestic production, savings and exports via technological advancement.

5. The Government should make independent cells which take care of the application of the foreign direct investment so that the decision can be taken easily.

6. The Government should improve the basic infrastructure of the country so that it can attract the foreign investors.

7. The Foreign Direct Investment policy should be done in a well phased manner so that the all affected stakeholders can adjust easily.

8. Some parts of job should be reserved for the affected parties.

CONCLUSION

The foreign direct investment is necessary for Indian economy to sustain the growth and it’s also helpful to improve the infrastructure of the country. But it must be supported by well-planned micro and macroeconomic policies. So that it can create the feasible investment environment for foreign investors. The foreign direct investment gives strength to Indian market to compete with world market. It helps the economy in the long run. So concluding the paper we propose that the foreign direct investment is very much required by the Indian economy for its own benefit along with the implementation of certain strict rules and regulations so that it does not become a curse for Indian economy.

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