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India as a Lucrative Destination for FDI in Retail

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Abstract: **The world over retail sector has been growing rapidly with increasing sophistication and modernisation of the life-style of households and individuals and also with increasing globalisation of trade. However the Indian retail sector is under invested and has been facing the problem of backend infrastructure. There are lots of gaps in the supply chain. Foreign direct investment (FDI) has the huge impact on the economic performance of any country. Indian market is the third largest emerging market economy in the world .The retail sector contributes to more than 10% of India's GDP and gives employment to around 40 million people in India. This paper deals with the objectives of analysing the current scenario of retailing in India and the rationale behind allowing FDI in retail sector along with its benefits to the economy. The data has been collected from the secondary sources. The paper concluded that FDI had a positive impact which has helped the overall development of the economy.**

Keywords: **Foreign direct investment (FDI), Lucrative Destination.**

1. INTRODUCTION

The fast and steadily growing economy of India in majority of its sectors has made India one of the most famous and popular destinations in the whole world, for Foreign Direct Investment. India's ever-expanding markets, liberalization of trade policies, development in technology and telecommunication, and loosening of diverse foreign investment restrictions, have further collectively made India, the apple of investors' eye, for most productive, profitable, and secure foreign investment. According to a recent survey by the United Nations Conference on Trade and Development (UNCTAD) World Investment Prospects Survey 2012–2014, India is the third-most attractive destination for FDI (after China and the US) in the world.

Before economic reforms 1991, India was conservative about FDI, it imposed restriction on foreign companies to limit their share in equity capital of their Indian subsidiaries. However, over the time Government of India gradually liberalized foreign investment in various sectors. Recently in 2011 India permitted 100% FDI in single brand retail and in 2012, 51% FDI permitted in multi brand. Thus FDI plays an important role in the economic growth of developing countries and is considered as a major source of capital infusion that can provide the booster dose to country's economic growth, and by liberalizing it in the retail sector.

Foreign direct investment (**FDI**) is direct investment into production in a country by a company in another country, either by buying a company in the host country or by expanding operations of an existing business in that country. Foreign direct investment is done for many reasons which includes taking advantage of cheaper wages, availing special investment privileges such as tax exemptions offered by the country as an incentive to gain tariff-free access to the markets of the country or the region. FDI acts as a bridge to fulfil the gap between investment and saving. Its need depends upon the gap between the investment and saving rate in the country. For a country, attracting an inflow of FDI strengthen the connection to world trade networks and finance its development path.

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.

2. OBJECTIVES OF THE STUDY

- To analyze the current scenario of retailing in India.
- To perceive the rationale behind allowing FDI in retail sector.
- To unearth why global retailers are interested in investing capital in the Indian retail sector.
- To foreground the benefits of FDI in multi brand retail trade.

3. REVIEW OF LITERATURE

Aggarwal (2005) examined the effect of variations in institutional and structural factors on FDI inflows, with a focus on the role of labour market rigidities. Econometric evidence found that infrastructure, regional development and human development were the key factors in attracting higher FDI both in the export and domestic market sectors. For the econometric analysis cross section data of 25 Indian states with time series data of 11 years (1991-2001) was used. Results of the empirical analysis suggested that rigid labour markets discourage FDI. The effect of labour market rigidities and labour cost however was more pronounced for the export oriented FDI as compared with the domestic market seeking FDI.

Das (2011) investigated that the Indian market witnessed a retail boom with organized retailers offering a whole assortment of goods and services to consumers under one roof with congenial shopping ambience. The study was theoretical and explained that the price promotions were increasing consumers buying behaviors. The study concluded that the exact picture of the impact of sales promotion on consumer behavior was not yet clear to the retailers.

Barua (2012) expressed that the opposition to the organized retailing has mainly been on the basis of a fear about the threat to the existence and livelihood of unorganised players. Although the growth of the organized market will have a positive impact on Indian economy in terms of employment generation, increased revenue to the government, supply chain benefits and the resultant increased income to farmers and lowered prices to consumers.

Ramachandran & Goebel (2002) examined the rationale for increased FDI and briefly examined the global trends in FDI and then pointed out that Tamil Nadu had emerged as one of the most favoured investment destination in India on account of a number of advantages such as strong and stable government with pro-active government policies, sound diversified industrial infrastructure, comfortable power situation, abundant availability of skilled manpower.

Rao & Manikyam (2013) argued in the study that the Indian retail sector is dominated by small scale retailers. According to an estimate the unorganized retailing sector has 95 percent presence, whereas, the organized retailing sector merely has 5 percent. The main challenge faced by the organized sector is the competition from unorganized sector. The objectives were to understand the consumption of retail customer, to study the emerging trends in Indian retailing and to examine the challenges & opportunities for organized retailing in India. Theoretical study on retailing in India with special reference to organized retailing in India was carried out and various books, journals, periodicals and reports of various organizations like A.T. Kearney Report, Ernst & Young, and ICRIER were consulted. Conclusion was made that despite of global financial meltdown, retailing in India will have a tremendous future only if the retail players concentrate on Indian rural segment which have vast and untapped potential.

Sengupta & Titus (2011) analyzed the shortcomings of the existing retail FDI policy and the claimed boons and banes of further liberalizing retail FDI. As per the survey by AT Kearney, it was found that India is the third most attractive country next to China and Kuwait in the world from the view point of the multi-national corporations which were interested in making investment in the retail sector of India. The emergence of FDI in retail sector was bound to pull up the quality standards and cost-competitiveness of Indian producers in all the segments. It will not only benefit the Indian consumer but will also open the door for Indian products to penetrate the wider global market.

Hussain (2014) studied the impact of FDI on Indian retail sectors and also delved on the opportunities and challenges to the country due to the entry of FDI in Indian retain sector. The research methodology applied was exploratory research by reviewing the relevant literature on the subject. All the relevant data and information required for the study had been taken from the secondary sources. The study concluded that FDI in Retail is a long term story for our country which will reap benefits gradually in the coming years.FDI approval in India by the government though has some riders but considering the various studies and available literature on the subject, it appears to be beneficial to economy. Although, there are certain reservations against FDI in India, still its liberalization in retail sector will not only help economic growth of the country but will also bring many other benefits to the society.

Udaykumar (2012) discussed the FDI policy and FDI policy in Retail sector and also discussed Porter's five force model for FDI in retail sector and types of FDI. The findings of the study pointed out that FDI in retail would undoubtedly enable India to integrate its economy with that of the global economy. Thus, as a matter of fact FDI in the buzzing Indian retail sector should not just be freely allowed but should be significantly encouraged.

Malhotra (2014) examined the impact of FDI on the Indian economy, particularly after two decades of economic reforms and also analyzed the challenges to position itself favourably in the global competition for FDI. The paper provided the major policy implications from this analysis, besides drawing attention on the complexities in interpreting FDI data in India. India's Foreign Direct Investment (FDI) policy has been gradually liberalized to make the market more investor friendly. The study concluded that for Indian economy which has tremendous potential, FDI has had a positive impact. FDI inflow supplements domestic capital, as well as technology and skills of existing companies. It also helps to establish new companies.

4. RESEARCH METHODOLOGY

DATA COLLECTION:

The study relies on secondary data. Secondary data has been collected from different sources like economic survey, FDI policy, manual of FDI in India, journals and magazines, reports, daily newspapers and websites.

ANALYSIS AND INTERPRETATION:

Current scenario of retailing in India:

Retailing is the interface between the producer and the individual consumer, which ends up with buying for personal consumption. The importance of retail can be appreciated from the following scenario of retail business in India.

➢ Indian retailing is the largest private sector in India contributing to 14-15% of country's GDP. It contributes to 8% of total employment. The worth of Indian retail industry is estimated to be $590 bn (ICRIER), which is expected to reach over $800 bn in 2015.

➢ Indian retail sector is highly fragmented with 96% of the market being dominated by unorganized retailers.

➢ Share in organized retailing:

- India : 4%
- China : 20%
- Malaysia: 55%
- Japan: 66%
- Indonesia: 30%

➢ India may be called the nation of shopkeepers because with 15 million outlets, it has the highest density of retail outlets in the world.

➢ Indian retail sector is highly fragmented in nature, only 4% of Indian retail outlets are larger than 500 sq. feet.

➢ Unorganized retail industry in India is the second largest employer after agriculture, employing about 8% of the total workforce (around 40 million people).

➢ INFLOWS: During April 2006 to march 2010, FDI inflows valued at US $194.69 million have come in the single brand retail trade sector, accounting nearly 0.21% of the total FDI in India during the same period.

Sector wise inflows	2012-13	2013-14	Change	% of change

FDI	Manufacture	6528	6381	(147)	(2.25)
	Construction	1319	1276	(43)	(3.26)
	Financial services	2760	1026	(1734)	(62.82)
	Real estate activities	197	201	**4**	**2.03**
	Electricity and other energy	1653	1284	(369)	(22.32)
	Communication	92	1256	**1164**	**1265.21**
	Business services	643	521	(122)	(18.97)
	Miscellaneous services	552	941	**389**	**70.47**
	Computer services	247	934	**687**	**278.13**
	Restaurants and hotels	3129	361	(2768)	(88.46)
	Retail and wholesale trade	551	1139	**588**	**106.7**
	Mining	69	24	(45)	(65.21)
	Transport	213	311	**98**	**46.00**
	Trading	140	0	(140)	(100)
	Education, R&D	150	107	(43)	(28.67)
	Others	43	293	**250**	**581.39**
	Total FDI	18286	16055	(2231)	(12.20)

FLOWS IN INDIA (US$mn):

Source: Annual report, RBI, Dated: 21.08.2014

Table shows the comparison of FDI inflows in India during the two consecutive financial years 2012-13 and 2013-2014. It indicates that FDI inflows have increased in almost all the sectors except Manufacturing, Construction, Financial services, Electricity, Business services, Restaurants, Mining, Trading and Education during the study period. On an average 12.20% FDI flows decreased in 2013-14 than 2012-13.

RATIONALE OF FDI IN RETAIL SECTOR IN INDIA:

- FDI in single and multi-brand retail will contribute in improving supply chain infrastructure and logistics.
- It will curb inflation.
- It will result in reduced price of the product to the ultimate consumer and enable a fair return to the customers.
- Economy will get the benefits out of capital inflows from global retailers that will develop the front end and back end infrastructure in different segments.
- It would act as an important employment absorber for the present social system.
- The consumer will get access to some of the major global brands.
- Entry of foreign brands will improve the quality and variety of products, increases competition and expand manufacturing.

RATIONALE OF FDI:

WHY DO GLOBAL RETAILERS DEEM INDIA AS A PROMISING INVESTMENT DESTINATION?

The Indian retail market has seen a considerable growth in the organized segment. After the waves of liberalization, privatization and globalization (LPG), marketing scenario particularly retailing has changed radically in India. Comprising of organized and unorganized sectors, this industry is one of the fastest growing industries in India, especially over the last few years. According to the 8^{th} annual global retail development index (GRDI) of AT Kearney, Indian retail industry is the most promising emerging market for investment.

Retail Trade: India, China, USA.

Country	Trade($)	Shops(mn)	Organised sector (%)
India	180-394	1.2	3-4
China	360	2.7	20
UAS	3800	15.3	80

REASONS:

✓ High consumer spending over the years by young population.

✓ Rising disposable income.

✓ Rise in the purchasing power of Indians.

✓ Improvements in infrastructure.

✓ Liberalization of Indian economy.

✓ Increase in urbanization.

✓ Rise of self employed class.

✓ Shift in consumer demand to foreign brands.

✓ The internet revolution making the Indian consumer more accessible to the growing influence of domestic and foreign retail chains.

✓ Strategic location and geography.

✓ Vast growing economy.

BENEFITS OF FDI IN RETAIL:

▪ Improvement in productivity and efficiency in retailing as the global retailers have advanced management in knowhow in merchandising and inventory management.

▪ FDI in retailing can easily assure the quality of product, better shopping experience and customer services.

▪ Entry of large low-cost retailers and adoption of integrated supply chain management by them is likely to lower down the prices which will benefit the consumers

▪ It also helps in increasing competition as multinational players are spreading their operation, regional players are also developing their supply chain differentiating their strategies and improving their operations to counter the size of international players. This will also encourage the investment and employment in supply chain management.

▪ They promote the linkage of local suppliers, farmers and manufacturers, no doubt only those who can meet the quality and safety standards, to global market and this will ensure a reliable and profitable market to these local players.

▪ Joint ventures would ease capital constraints of existing organized retailers.

▪ FDI would lead to expansion of opposite sell formats as good as modernization of a sector.

▪ FDI helps in the overall growth of the economy.

▪ FDI in retail will lead to relentless undermining of the livelihoods of millions of petty traders, kirana shop owners, vendors and hawkers with miniscule benefits is also weak. Stores like Walmart or Tesco located on the outskirts of cities can't intrude into the territory of local kiranas.

5. CONCLUSION

India's Foreign Direct Investment (FDI) policy has been gradually liberalised to make the market more investor friendly. The results have been encouraging. These days, the country is consistently ranked among the top three global investment destinations by all international bodies, including the World Bank, according to a United Nations (UN) report. For Indian economy which has tremendous potential, FDI had a positive impact. FDI inflow supplements domestic capital, as well as technology and skills of existing companies. It also helps to establish new companies. All of these contribute to economic growth of the Indian Economy.

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