FDI IN RETAIL: AN OVERVIEW IN INDIA

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ABSTRACT: The current regulations on retail allow 100% FDI in wholesale cash-and-carry trading. In single-brand retailing, 100% FDI is permitted while it is prohibited in multi-brand retailing. The question arises whether opening up of FDI in multi-brand retail will create problems or provide opportunities. There is no clear answer and ample views have been expressed both in favour and against FDI. The aim of the paper is to get insights regarding the retail industry of the India and its role in the economy. The paper also explores the advantages as well as the disadvantages of allowing 100% FDI in the retail sector. The FDI in retail sector would incorporate the economy with the rest of the world, but in buzzing Indian retail sector it should not be freely allowed but should have significant rules regulations and the monitoring authorities. The paper provides brief information about the growth of retailing industry in India. The study encompasses growth of retail sector, strength and opportunities of retail stores, retail format on India, recent trends and opportunities and challenges.

KeyWords: FDI, Retail Sector, Single-brand, Multi-brand.

INTRODUCTION

The last two decades, have seen India opening up its economy in a slow but steady fashion to private as well as foreign investment. The foreign investment is governed through the FDI policy which regulates industries open to foreign investment, and also the percentage that can be held by the foreign companies. Globalization and liberalization have immensely influenced the Indian economy and have gone a long way in making it a lucrative consumer market. The future is promising; the market is growing, government policies are becoming more favorable and emerging technologies are facilitating operations.

Foreign Direct Investment (FDI) flows are usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depend on the performance of the projects financed by investors. FDI also facilitates international trade and transfer of knowledge, skills and technology. In a world of increased competition and rapid technological change, their complementary and catalytic role can be very valuable.

Though India is the tenth most industrialized country in the world, it is well known that it is mainly agro-based with around 70% population engaged in the farm sector. However, in the initial stage of liberalization Retailing in India is one of the business firms. It contributes 14-15% to the GDP (Anand Dikshit 2011) and 7 percentage of labor force. India is one of the fastest growing retail markets in world. Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand retail, forbidding foreign groups from any ownership in supermarkets,
convenience stores or any retail outlets In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reached a consensus (Agarwal ltd. 2011). 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 source 30% of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores (Shrama 2012). FDI play multifarious role in the overall development of the host country.

It helps to generate benefits through bringing non-debt creating foreign capital resources, technology upgradation, skill enhancement, new employment, spillovers and allocative efficiency effects. FDI plays a coeval role in over all capital formation and bridging the gap between domestic saving and investment. At the macro level it acts as a non-debt creating source of additional external finances. At the micro level it is looked as something which will boost output, technology, skill level, employment and linkages with other sectors and the regions of the host economy.

**Review of Literature:**

Nagesh Kumar (April 2005) observed that most developing countries offer a welcoming attitude to FDI. After following a somewhat restrictive policy towards FDI, India has liberalized her policy regime considerable since 1991. This liberalization has been accompanied by increasing inflows and also by changes in the sectoral composition, sources and entry modes of FDI. The increasing recognition of India’s location advantages in knowledge-based industries among MNEs has led to increasing investments in software development and global R & D centers set up in India to exploit these advantages. This paper has reviewed the Indian experience with FDI since 1991 in a comparative East Asian Experience.

Joshi, Sahana and Dadibhavi, R.V. (March 2008) observed that since 1991, the role of FDI in Indian economy is increasing due to a number of measures undertaken to liberalize FDI policy. Following economic reforms, governments at the state level are initiating measures to attract more financial resources into the states including FDI.

Mallampally, P. and Sauvant, K.P (March 1999) observed that the FDI has grown at an extraordinary rate since the 1980s and LDCs are becoming increasingly attractive investment destinations primarily because of the reason that they can offer investors a range of created assets.

Nagesh Kumar in his research article titled “Industrialization, Liberalization and the Two Way Flows of Foreign Direct Investment: Case of India” (Economic and Political Weekly, December 16, 1995, Vol-30) has divided the Indian government’s attitude towards foreign investments. The author says that this attitude has evolved over the post independence period in four distinct phases. The period from independence up to the late 1960s was marked by a gradual liberalization of attitude. The period from the late 1960s through to the 1970s was characterized by a more selective stance. The 1980s were marked by a certain liberalization of policy. In 1991 India liberalized its policy regime further with respect to both inward and outward FDI as a part of reforms undertaken to increase the international competitiveness of Indian enterprises. This paper analyses the evolution of India’s FDI position in these four phases of government policy and levels of industrialization and development.

**OBJECTIVES**

- To carry out an overview of the retail sector in India.
- To examine FDI in retail sector in India.
- To study the role of retail sector in India.
- To explore positive as well as negative impacts of FDI in retail sector.
RETAIL SECTOR IN INDIA:-

Retailing is defined as a set of all activities involved in selling goods or services directly to the final consumer for their personal, non-business use by the way of shops, market, door-to-door selling, and mail-order or over the internet where the buyer intends to consume the product. “Retail” term came up in 2004 when the High Court of Delhi defined the term retail” as a sale for final consumption compared to a sale for further sale or processing.

The phenomena of retailing involves a direct interface with the customer and the coordination of business activities from end to end- from the concept or design stage of a product , to its delivery and post-delivery service to the customer.

Evolution of Indian retail industry:-

Historically retailing evolved as a source of entertainment (in the form of village fairs, melas etc.) which was within the rural reach. Later on definitions and meanings were transformed, Mom and Pop/ Kirana stores which are of traditional variety neighbourhood shops. Then came the government supported PDS outlets, khadi stores, cooperatives etc. Last of all shopping malls, supermarkets, departmental stores etc has brought a huge change to the Indian retail market. The evolution of retailing can be diagrammatically explained in (Fig 1).

(Figure 1)

Retailing in India is one of the pillars of economy and accounts for 14 to 15 percent of its GDP. The Indian retail market is estimated to be US$500 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in 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 centres. India’s retail and logistics industry employs about 40 million Indians (3.3% of Indian population). The retail industry in India is of late often being hailed as one of the sunrise sectors in the economy. The Indian retail sector is very different from that of the developed countries. In the developed countries, products and services normally reach consumers from the manufacturer/producers through two different channels: (a) via independent retailers (‘vertical separation’) and (b) directly from the producer (‘vertical integration’). In the latter case, the producers establish their own chains of retail outlets, or develop franchises. On the other hand, Indian retail industry is divided into organized and unorganized sectors. Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc.

These include the corporate-backed supermarkets and retail chains, and the privately owned giant retail businesses. Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc. Unorganized retailing is by far the prevalent form of trade in India – constituting 98% of total trade, while organized trade accounts only for the remaining 2% – and this was projected to increase to 15-20 per cent by 2010 (Singhal 2009). Nonetheless, the organized sector is expected to grow faster than GDP growth in next few years driven by favorable demographic patterns, changing lifestyles, and strong income growth.

The three various forms by which organized retail trade in India is executed can be tabulated as:

<table>
<thead>
<tr>
<th>Mono/Single brand retail shops</th>
<th>Multi brand retail shops</th>
<th>Convergence retail outlets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exclusive showrooms either owned or franchised out by the manufacturer. A complete range of all the products manufactured by the said manufacturer under one brand name</td>
<td>In these kinds of stores all brands of a single product are available. Customer has a very wide choice</td>
<td>These kinds of outlets have almost all products which a consumer may need</td>
</tr>
<tr>
<td>Focus is on brand name</td>
<td>Focus is on nature of product</td>
<td>Focus is on diverse consumer needs</td>
</tr>
<tr>
<td>Nike show room etc</td>
<td>Shoppers stop, Croma</td>
<td>Big bazaar etc.</td>
</tr>
</tbody>
</table>

In 2004, the high court of Delhi defined the term ‘retail’ as a sale for final consumption in contrast to a sale for further sale or processing (i.e. Wholesale), a sale to the ultimate consumer. Thus, retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit.
The retail sector in India is growing at a phenomenal pace. According to the Global Retail Development Index 2012, (Table 1, Figure 2). India ranks fifth among the top 30 emerging markets for retail.

The recent announcement by the Indian government with Foreign Direct Investment (FDI) in retail, especially allowing 100% FDI in single brands and multi-brand FDI has created positive sentiments in the retail sector.

"There are many factors contributing to the boom in this sector. To name a few, increased consumerism with a capacity to spend on luxury items and increased spending power in the hands of Indians. More Indians are travelling abroad and are exposed to different cultures and way of life and thereby more brands. India's internal consumption is also high and the consumption pattern owning to diversity in culture, religion and the family values that encourage spending on specific occasions keep the retail business well oiled. Marriages add a big dimension to the retail spends. Our culture expects a lot of give-and-take for marriages, festivals and other important events of life. Hence, it’s imperative for people right from rural to the urban, irrespective of their caste and creed or economic status, to spend on gifts as a part and parcel of life. And that’s the reason worldwide retailers eye the Indian market,“ says Swati Salunkhe, managing director, Growth Centre (I) Pvt. Ltd.

### Global Retail Development Index

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>GRDI Score</th>
<th>Change in rank compared to 2011</th>
<th>Market attractiveness(25%)</th>
<th>Country risk(25%)</th>
<th>Market saturation(25%)</th>
<th>Time pressure(25%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Brazil</td>
<td>73.8</td>
<td>0</td>
<td>100</td>
<td>85.4</td>
<td>48.2</td>
<td>61.6</td>
</tr>
<tr>
<td>2</td>
<td>Chille</td>
<td>65.3</td>
<td>0</td>
<td>86.6</td>
<td>100.0</td>
<td>17.4</td>
<td>57.1</td>
</tr>
<tr>
<td>3</td>
<td>China</td>
<td>63.8</td>
<td>3</td>
<td>53.4</td>
<td>72.6</td>
<td>29.3</td>
<td>100.0</td>
</tr>
<tr>
<td>4</td>
<td>Uruguay</td>
<td>63.1</td>
<td>-1</td>
<td>84.1</td>
<td>56.1</td>
<td>60.0</td>
<td>52.3</td>
</tr>
<tr>
<td>5</td>
<td>India</td>
<td>60.8</td>
<td>-1</td>
<td>31.0</td>
<td>66.7</td>
<td>57.6</td>
<td>87.9</td>
</tr>
<tr>
<td>6</td>
<td>Georgia</td>
<td>60.6</td>
<td>NA</td>
<td>27.0</td>
<td>68.7</td>
<td>92.6</td>
<td>54.0</td>
</tr>
<tr>
<td>7</td>
<td>UAE</td>
<td>60.6</td>
<td>1</td>
<td>86.1</td>
<td>93.9</td>
<td>9.4</td>
<td>52.9</td>
</tr>
<tr>
<td>8</td>
<td>Oman</td>
<td>58.9</td>
<td>NA</td>
<td>69.3</td>
<td>98.3</td>
<td>17.4</td>
<td>50.4</td>
</tr>
<tr>
<td>9</td>
<td>Mongolia</td>
<td>58.5</td>
<td>NA</td>
<td>6.4</td>
<td>54.4</td>
<td>98.2</td>
<td>75.1</td>
</tr>
<tr>
<td>10</td>
<td>Peru</td>
<td>57.4</td>
<td>-3</td>
<td>43.8</td>
<td>55.5</td>
<td>62.9</td>
<td>67.2</td>
</tr>
</tbody>
</table>

Source – IMF, World Bank, World Economic forum

Table-1
CHALLENGES

It is said that FDI might provide employment opportunities, but it is argued that it cannot provide employment opportunities to semi-illiterate people. This argument gains more importance because in India, a large number of semi-illiterate people makes a good number. There is a fear that allowing FDI in retail would result in lowering of prices, as FDI will bring in good technology, reduces supply chain etc. If prices are lowered, then it will lower the margin of unorganized players also. As a result of this, the unorganised market will be affected. This in turn will have an impact on the employment opportunities provided by the unorganised market. Moreover, FDI in retail will drain out the country’s share of revenue to foreign countries, which may cause negative impact on India’s economy. Fear also comes that domestic organised retail sector might not be competitive enough to tackle international players resulting not only in loss of market share for them but in closure of their units. There is a possibility of small business owners and workers from other functional areas, as lot of people are involved in unorganised retail business, may lose their jobs. Small retailers and other ‘Kirana Stores’ may close down.

Supermarkets will establish their monopoly in the Indian market. Due to supermarkets fine tuning and higher accessibility, they will be able to buy goods at lower prices and therefore will be able to sell at lower prices to consumers. This will result in closing of many small retailers. Though Government has stipulated that 30% procurement should be from Indian sources, this may get diluted over the years. The remaining 70% procurement from cheaper countries will make the people run towards that stuff and the 30% supply from Indian small industries will have their own death, unable to compete with low price Chinese goods. Also, the retail sector in India does not enjoy industry status in India, thereby making difficult for retailers to raise funds.
FDI IN RETAIL SECTOR

FDI in retail industry means that foreign companies in certain categories can sell products through their own retail shop in the country. At present, foreign direct investment (FDI) in pure retailing is not permitted under Indian law. Government of India has allowed FDI in retail of specific brand of products. Following this, foreign companies in certain categories can sell products through their own retail shops in the country. India’s retail industry is estimated to be worth approximately US$411.28 billion and is still growing, expected to reach US$804.06 billion in 2015. As part of the economic liberalization process set in place by the Industrial Policy of 1991, the Indian government has opened the retail sector to FDI slowly through a series of steps:

1995: World Trade Organization’s General Agreement on Trade in Services, which includes both wholesale and retailing services, came into effect.
1997: FDI in cash and carry (wholesale) with 100% rights allowed under the government approval route.
2006: FDI in cash and carry (wholesale) brought under the automatic route. Up to 51 percent investment in a single-brand retail outlet permitted.
2011: 100% FDI in single brand retail permitted.

The Indian government removed the 51 percent cap on FDI into single-brand retail outlets in December 2011, and opened the market fully to foreign investors by permitting 100 percent foreign investment in this area. Government has also made some, albeit limited, progress in allowing multi-brand retailing, which has so far been prohibited in India. At present, this is restricted to 49 percent foreign equity participation. The spectre of large supermarket brands displacing traditional Indian mom-and-pop stores is a hot political issue in India, and the progress and development of the newly liberalized single-brand retail industry will be watched with some keen eyes as concerns further possible liberalization in the multi-brand sector.

FDI IN SINGLE-BRAND RETAIL

While the precise meaning of single-brand retail has not been clearly defined in any Indian government circular or notification, single-brand retail generally refers to the selling of goods under a single brand name. Up to 100 percent FDI is permissible in single-brand retail, subject to the Foreign Investment Promotion Board (FIPB) sanctions and conditions mentioned in press Note. These conditions stipulate that:

- Single-brand products are sold (i.e., sale of multi-brand goods is not allowed, even if produced by the same manufacturer).
- Products are sold under the same brand internationally.
- Any additional product categories to be sold under single-brand retail must first receive additional government approval.

FDI in single-brand retail implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand. For Adidas to sell products under the Reebok brand, which it owns, separate government permission is required and (if permission is granted) Reebok products must then be sold in separate retail outlet.

FDI IN “MULTI-BRAND” RETAIL

While the government of India has also not clearly defined the term “multi-brand retail,” FDI in multi-brand retail generally refers to selling multiple brands under one roof. Currently, this sector is limited to a maximum of 49 percent foreign equity participation. These are positive steps and it will encourage international brands to set up shop in India. On the other hand, this will also lead to competition among Indian players. It will be the consumers who stand to gain;” This would not change the market dynamics immediately as it will take some time for these plans to fructify. The
growing dominance of multinational companies in the country's $200 billion retail business, had warned that any move to increase FDI in the retail sector would ruin the business of small and medium traders scattered over the country. Organized retailers in India are opposing the entry of MNCs in retail trading because of their predatory pricing strategy that wipes out competition, when the Government decides to allow foreign players to enter the retail.

**Granger causality Test between GDP and FDI inflows**

There still remains a debate about the direction of causation in the positive association between FDI and GDP. Thus, if a higher GDP attracted larger FDI inflows, this positive association might not be meaningful for FDI related polices. But if higher FDI caused higher GDP, India would be well advised to attract more FDI. Therefore, the direction of causality between FDI and GDP using Granger causality analysis demands attention.

Various regressions were estimated with a view to find out the direction of causation. However, it turned out that it is the autoregressive causality that could be established in the case of FDI. The result is presented below:

<table>
<thead>
<tr>
<th>Null hypothesis</th>
<th>Number of lags</th>
<th>F-statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI does not cause GDP growth</td>
<td>4</td>
<td>1.842</td>
</tr>
</tbody>
</table>

Lag profile of the estimated equation is given below:

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized co-efficients</th>
<th>Standardized co-efficients</th>
<th>t</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>2.858 E-02</td>
<td>.123</td>
<td>.232</td>
<td>.824</td>
</tr>
<tr>
<td>VAR 02</td>
<td>.570</td>
<td>.283</td>
<td>.644</td>
<td>2.010</td>
</tr>
<tr>
<td>VAR 03</td>
<td>-.751</td>
<td>.320</td>
<td>-.890</td>
<td>-2.346</td>
</tr>
<tr>
<td>VAR 04</td>
<td>.354</td>
<td>.293</td>
<td>.458</td>
<td>1.206</td>
</tr>
<tr>
<td>VAR 05</td>
<td>3.246 E-03</td>
<td>.268</td>
<td>.004</td>
<td>.012</td>
</tr>
</tbody>
</table>

This autoregressive causality of the FDI shows the significance of foreign environment in affecting the inflows of FDI to India.
CONCLUSION

FDI in retail trading should be opened up to substantially improve productivity and distribution system through modern format retailing. FDI in retail is essential in our country. The study showed that the favorable impact is more than unfavorable impact. Allowing healthy FDI in the retail sector would not only lead to a substantial surge in the country’s GDP but overall economic development. The government should come out with a policy statement laying down the roadmap for modern retail and allowing foreign investment in retail. FDI in retail industry would help domestic players to capitalize MNC players supply chains and distribution network experiences. The grant of industry status will help companies borrow at lower costs, and will bestow them fiscal incentives etc. Furthermore, the country would be benefited from large foreign investment flows in recent years. These flows, especially FDI, need to be encouraged through an appropriate policy regime. Thus, as a matter of fact FDI in the buzzing Indian retail sector should not just be freely allowed but per contra should be significantly encouraged. Allowing FDI in retail trade, in India will significantly flourish in terms of quality standards and consumer expectations, since the inflow of FDI in retail sector is bound to pull up the quality standards and cost-competitiveness of Indian producers in all the segments. The interest of the consumers should therefore take precedence over the interest of the retailer and in retail. India needs to take a lesson from China where organized and unorganized retail seem to co-exist and grow together. Further, India’s local enterprises will potentially receive an up-gradation with the import of advanced technological and logistics management expertise from the foreign entities. FDI in single brand retail and multi-brand retail have been in news receiving both bouquets and brickbats from across the country and it has once again hogged the lime-light when Indian government issued a clarification by stating that foreign investors who invest 51% stake in multi-brand retail needs to put 50% of that investment in creating ‘a new backend infrastructure’. The government has an opportunity to utilize the liberalization for achieving certain of its own targets:

- To improve its infrastructure, making access of sophisticated technologies; generate employment for those keen to work in this sector.
- To be prosperous in a time of unprecedented demographic expansion India must be willing to change and all change involves both winners and losers. FDI would lead to a more comprehensive integration of India into the worldwide market and, as such, it is imperative for the government to promote this sector for the overall economic development and social welfare of the country. If done in the right manner, it can prove to be a boon and not a bane.

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