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A Study on the Impact of Foreign Direct Investment on Indian Retail Sector

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Abstract:
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. India slipped six notches to the 14th spot in global rankings of countries that attracted highest foreign direct investment. Foreign direct investment (FDI) in this country assumed critical importance in the context of this liberalization. The Retail sector of India is vast, and has huge potential for growth and development, as the majority of its constituents are un-organized. The *retail sector of India* ***handles about $250 billion every year, and is expected by veteran economists to reach to $660 billion by the year 2015.***

The business in the organized retail sector of India, is to grow most and faster at the rate of 15-20% every year, and can reach the level of $100 billion by the year 2015. Here, it is noteworthy that the retail sector of India contributes about 15% to the national GDP, and employs a massive workforce of it, after the agriculture sector. This paper analyses the trends of global FDI inflows into India and some other selected countries. It evaluates the sector wise, country wise inflows of FDI in India. The prospects and challenges of FDI investing in Retail sector are examined at great length and measures are suggested to enhance FDI inflows into India.

***Key words:* FDI, Retail Sector, GDP, Economic Growth.**

1. Introduction:

India is a major exporter of highly-skilled workers in software and financial services, and software engineering.

India followed a socialist-inspired approach for most of its independent history, with strict government control over private sector participation, foreign trade, and foreign direct investment. However, since the early 1990s, India has gradually opened up its markets through economic reforms by reducing government controls on foreign trade and investment. As noted in the 2011 World Investment Report, India received $25 billion in 2010, against China's US$105 billion and Brazil's $48 billion. When FDI inflows to emerging countries revived after the global financial crisis, India lost out due to a lack of reforms and low investor confidence. The report also observes that India's global ranking as a destination for FDI fell from 8 to 14. Though India has formulated a manufacturing policy to facilitate the share of FDI to 15 per cent of GDP, policies toward land acquisition, environmental factors and infrastructure financing are yet to be made sufficiently clear and investor-friendly. FDI reforms in India have been progressive and successful at the macro level.

According to The Hindu's Annual Survey of Industry 2011, a positive aspect of Indian FDI has been the increase in the share of export-oriented FDI, particularly in automobiles, auto components and products using embedded software. hub due to investment from foreign multinationals such as Peugeot, Hyundai and Nissan. The decision by major global power equipment firms to set up production bases in India to cater to domestic demand proves that India is an attractive destination for FDI. The plus point is that the majority of FDI is domestic market-seeking and there is no export obligation for foreign investors. This is contrary to China's FDI policy, where export obligation is mandatory for foreign investors.

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2. Objectives of the Study:

1. To study the flow of Foreign Direct investment in India.
2. To examine the trends and patterns in the FDI across different sectors and from different countries in India.
3. To study the FDI in Retail Sector in India.
4. To find out the problems of FDI in Retail and Benefits associated with it.

3. Review of Literature:

Following the opening up of single-brand retail to 100% FDI, there's a lot of speculation about the Swedish furniture and accessories retailer IKEA entering India.With a global presence in as many as 41 countries, IKEA obviously cannot ignore the Rs92,500 crore Indian furniture and furnishings market, less than 7% of which has been tapped by modern retail. In fact, IKEA had set up an office in India back in 2007.In June 2009, however, IKEA announced it was abandoning efforts to invest up to €300 million (more than eight times the cumulative FDI received by India in single-brand retail) for setting up stores, after failing to persuade the Indian government to ease FDI restrictions.

Alongside a decision was also taken to permit 100% FDI in single brand retail trading, subject to the following conditions:

1. FDI in single brand retail trading may be permitted up to 100% with Government approval.
2. Products to be sold should be of a 'Single Brand' only.
3. Products should be sold under the same brand internationally i.e. products should be sold under the same brand in one or more countries other than India.
4. 'Single Brand' product-retailing would cover only products which are branded during manufacturing.
5. The foreign investor should be the owner of the brand.
6. In respect of proposals involving FDI beyond 51%, 30% sourcing would mandatorily have to be done from Indian SMEs/ village and cottage industries artisans and craftsmen. 'Small industries' would be defined as industries which have a total investment in plant & machinery not exceeding US $ 1.00 million.

4. Data Analysis:

Table-1: Analysis of Sector Specific Policy for FDI

Sr. No.	Sector/Activity	FDI cap/Equity	Entry/Route
1.	Hotel & Tourism	100%	Automatic
2.	NBFC	49%	Automatic
3.	Insurance	26%	Automatic
4.	**Telecommunication:** cellular, value added services ISPs with gateways, radio-paging Electronic Mail & Voice Mail	 49% 74% 100%	Automatic Above 49% need Govt. licence
5.	**Trading companies:** primarily export activities bulk imports, cash and carry wholesale trading	 51% 100%	 Automatic Automatic
6.	Power(other than atomic reactor power plants)	100%	Automatic
7.	Drugs & Pharmaceuticals	100%	Automatic
8.	Roads, Highways, Ports and Harbors	100%	Automatic
9.	Pollution Control and Management	100%	Automatic
10	Call Centers	100%	Automatic
11.	BPO	100%	Automatic
12.	**For NRI's and OCB's:** i. 34 High Priority Industry Groups ii. Export Trading Companies iii. Hotels and Tourism-related Projects iv. Hospitals, Diagnostic Centers v. Shipping vi. Deep Sea Fishing vii. Oil Exploration viii. Power ix. Housing and Real Estate Development x. Highways, Bridges and Ports xi. Sick Industrial Units xii. Industries Requiring Compulsory Licensing xiii. Industries Reserved for Small Scale Sector	100%	Automatic
13.	**Airports:** Greenfield projects Existing projects	 100% 100%	 Automatic Beyond 74% FIPB
14	Assets reconstruction company	49%	FIPB
15.	Cigars and cigarettes	100%	FIPB
16.	Courier services	100%	FIPB
17.	Investing companies in infrastructure (other than telecom sector)	49%	FIPB

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Table-2: Analysis of FDI inflow in India (From April 2003 to August 2014-14)
(Amount US$ in Millions)

S.No	Financial Year	Total FDI Inflows	% Growth Over Previous Year
1.	2003-04	4,029	----
2.	2004-05	6,130	(+) 52
3.	2005-06	5,035	(-) 18
4.	2006-07	4,322	(-) 14
5.	2007-08	6,051	(+) 40
6.	2008-09	8,961	(+) 48
7.	2009-10	22,826	(+) 146
8.	2010-11	34,362	(+) 51
9.	2011-12	35,168	(+) 02
10.	2012-13	16,232	----
11	2014-2015	28,530	

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:

1. 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.
2. It 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.

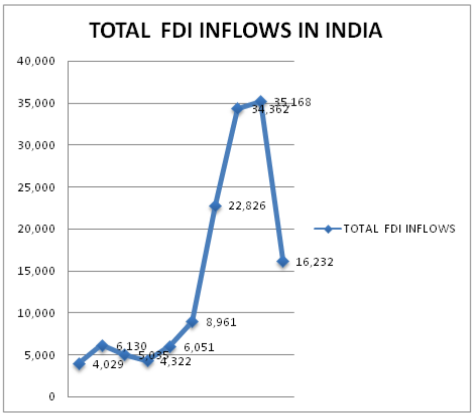

Fig-1: Total FDI Inflows in India

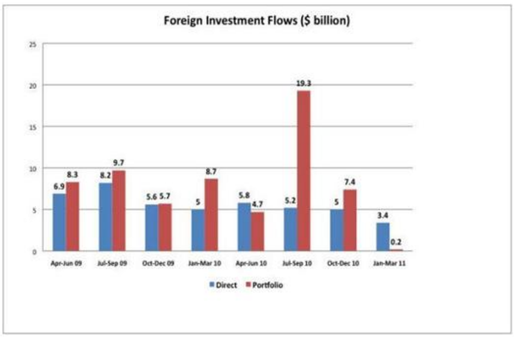

Fig-2: Foreign Investment Flows

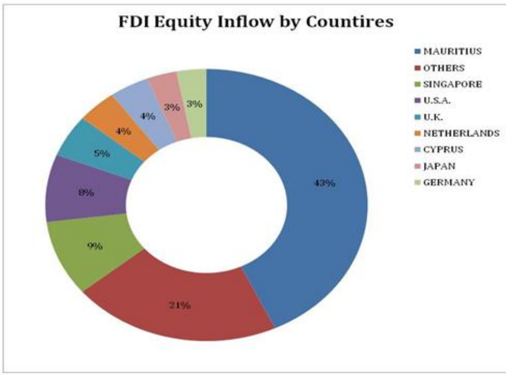

Fig-3: FDI Equity Inflow by Countries

Inference:

The annual flows of foreign investment, what we find is that FDI flows registered a dramatic increase in 2007-08, from $23 billion to $35 billion, hovered around $38 billion during 2008-10 and then fell to a lower but still respectable $27 billion in 2010-11. The problem has not been the level of FDI flows but a degree of volatility. During these years, what are identified as portfolio flows have been even more volatile, fluctuating between a net inflow of $32 billion during the last two years (2009-11) and a negative $14 billion in the crisis year 2008-09. Even if we examine quarterly figures, we find that FDI flows that rose from $6.9 billion in the second quarter of 2009 to a peak of $8.2 billion in the third quarter of that year, have since stayed in the 5-6 billion range for all but one quarter, namely January-March 2011. In fact, if we consider the 16 quarters ending Jan-March 2011, there have been only two in which FDI inflows stood at between $6-7 billion and four when it exceeded 7 billion.

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Thus, what the numbers point to is a degree of volatility around a $5-6 billion per quarter range, that cautions against reading too much into figures from any single quarter. In fact, no sooner had the Financial Times declared that foreign direct investment into India had "tumbled 32 per cent to just $3.4 billion" during January to March 2011 that it emerged that net FDI flows in the month of April alone amounted to $3.1 billion.

Table-3: Analysis of share of top ten investing countries FDI equity in flows (From April 2005 to January 2015) (Amount in Millions)

Sr. No	Country	Amount of FDI Inflows	% As To Total FDI Inflow
1.	Mauritius	19,18,633.61	44.01
2.	Singapore	3,80,142.56	8.72
3.	U.S.A.	3,32,935.60	7.64
4.	U.K.	2,40,974.98	5.53
5.	Netherlands	1,78,047.76	4.08
6.	Japan	1,50,129.05	3.44
7.	Cyprus	1,32,448.04	3.04
8.	Germany	1,12,242.06	2.57
9.	France	61,686.39	1.42
10.	U.A.E.	50,915.59	1.17

Table-4: Analysis of sectors attracting highest FDI equity inflows (From April 2005 to March 2015) (Amount in Millions)

Sr. No	Country	Amount of FDI Inflows	% As To Total FDI Inflow
1.	Service Sector (Financial &Non-Financial)	9,65,210.77	22.14
2.	Computer Software & Hardware	4,13,419.03	9.48
3.	Telecommunication	3,68,899.62	8.46
4.	Housing & Real Estate	3,25,021.36	7.46
5.	Construction Activities	2,65,492.96	6.09
6.	Automobile Industry	1,90,172.22	4.36
7.	Power	1,79,849.92	4.13
8.	Metallurgical Industries	1,25,785.57	2.89
9.	Petroleum & Natural Gas	1,11,957.00	2.57
10.	Chemical	1,01,680.18	2.33

Inference:

The sectors receiving the largest shares of total FDI inflows up to arch2015 were the service sector and computer software and hardware sector, each accounting for 22.14 and 9.48 percent respectively. These were followed by the telecommunications, real estate, construction and automobile sectors.

The top sectors attracting FDI into India via M&A activity were manufacturing; information; and professional, scientific, and technical services. These sectors correspond closely with the sectors identified by the Indian government as attracting the largest shares of FDI inflows overall. During the year 2009 government had raised the FDI limit in telecom sector from 49 per cent to 74 per, which has contributed to the robust growth of FDI. The telecom sector registered a growth of 103 per cent during fiscal 2008-09 as compared to previous fiscal. The sector attracted USD 2558 million FDI in FY '09 as compared to the USD 1261 million in FY '08, acquired 9.37 per cent share in total FDI inflow. India automobile sector has been able to record 70 per cent growth in foreign investment. The FDI inflow in automobile sector has increased from USD 675 million to 1,152 million in FY '09 over FY '08. The other sectors which registered growth in highest FDI inflow during April – March 2009 were housing & real estate (28.55 per cent), computer software & hardware (18.94 per cent), construction activities including road & highways (16.35 per cent) and power (1.86 per cent).

5. Findings:

Concerns over FDI in Retail:

The following concerns were expressed in regard to the policy and safeguards made by the Government:

1. One concern expressed is that this policy would result in flooding of the market by cheap, imported products. The safeguard pertaining to a minimum of 50% investment being made in back-end infrastructure is an in-built incentive for investors to use the investments so made in the backend infrastructure to produce/source products locally rather than import from outside which would necessarily carry the additional costs of tariffs, insurance and freight. As for the concern that foreign retailers will resort to predatory pricing, it is important to note that a strong legal framework, in the form of the competition commission, which covers all sectors, is available to deal with any anti-competitive practices, including predatory pricing.
2. An important issue that has been raised is that this policy should not be imposed on States that do not

wish to allow foreign investors to set up retail outlets within their jurisdiction.

Benefits to Stakeholders:

The policy will have the following benefits:

- Farmers stand to benefit from the significant reduction in post-harvest losses expected to result from the strengthening of the backend infrastructure; and Small manufacturers will benefit from the conditionality requiring at least 30% procurement from Indian small industries. This, in turn, will enhance their capacity to export products from India.
- As far as small retailers are concerned, a major apprehension expressed is that they will be eliminated. In this context, you would be aware that organized retail already co-exists with small traders and the unorganized retail sector. It has been found that there was a strong competitive response from the traditional retailers to these organized retailers, through improved business practices and technological upgradation. Small retailers will continue to be able to source high quality produce at significantly lower prices from wholesale cash and carry points.
- The young people joining the workforce will benefit from the creation of employment opportunities, in the entire range of activities from the backend to the frontend retail business, as also from the skills imparted to them by the prospective investors.
- Consumers stand to gain the most, firstly, from the lowering of prices that would result from supply chain efficiencies and secondly, through improvement in product quality, which would come about as a combined result of technological up gradation; efficient grading, sorting and packaging; testing and quality control and product standardization.

7. Conclusion:

A large number of changes that were introduced in the country's regulatory economic policies heralded the liberalization era of the FDI policy regime in India and brought about a structural breakthrough in the volume of the FDI inflows into the economy maintained a fluctuating and unsteady trend during the study period. It might be of interest to note that more than 50% of the total FDI inflows received by India came from Mauritius, Singapore and the USA. A number of concerns were expressed with regard to partial opening of the retail sector for FDI. It would lead to unfair competition and ultimately result in large-scale exit of domestic retailers, especially the small family managed outlets, leading to large scale displacement of persons employed in the retail sector. Further, as the manufacturing sector has not been growing fast enough, the persons displaced from the retail sector would not be absorbed there. Another concern is that the Indian retail sector, particularly organized retail, is still under-developed and in a nascent stage and that, therefore, it is important that the domestic retail sector is allowed to grow and consolidate first, before opening this sector to foreign Investors.

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