THE IMPACT OF FOREIGN DIRECT INVESTMENT IN RETAIL SECTOR

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ABSTRACT

Indian Retail Sector is one of the booming service sectors amongst the three major sectors in the Indian Economy, Agriculture and Industry being the other two. The services sector has the largest share of India's GDP, and only Retailing in India accounts to nearly 15 percent of its GDP. Retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption. The composition and type of Foreign Direct Investment (FDI) has changed considerably since India opened up its doors to global market.

To boost the Indian economy Foreign Direct Investment (FDI) has been recognized as one of the important drivers of the economic growth of our country. With the policy of the government to allow Foreign Direct Investment in the multiband retail sector, it has brought new hope and high expectations that it may serve as a catalyst to facilitate economic growth in our country.

The paper tries to explore and analyse the impact of Foreign Direct Investment FDI in retail and its cumulative effect on human capital and overall economic progress.

Keywords- Retail Sector, Foreign Direct Investment, Gross Domestic Product, Economic Growth.

1. INTRODUCTION

The Indian Economy

The Indian Economy can be studied and tracked in three major sectors: Agriculture, Industry and Services. Agriculture includes crops, horticulture, milk and animal husbandry, aquaculture, fishing, sericulture, aviculture, forestry and related activities. Industry includes various manufacturing sub-sectors. India's definition of services sector includes its construction, retail, software, IT, communications, hospitality, infrastructure operations, education, health care, banking and insurance, and many other economic activities.
The services sector has the largest share of India's GDP, accounting for 57% in 2012, up from 15% in 1950. It is the seventh-largest services sector by nominal GDP, and third largest when purchasing power is taken into account. The services sector provides employment to nearly 27% of the work force.

The Retail Sector

The Retail Sector is a part of the Service Sector in India. Retailing in India accounts to nearly 15 percent of its GDP. The Indian retail market is estimated to be US$ 450 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. Retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. In 2010, larger format convenience stores and supermarkets accounted for about 4 percent of the industry, and these were present only in large urban centers. India's retail and logistics industry employs about 40 million Indians (i.e. 3.3% of Indian population). The retail sector in India enjoys an extremely high growth rate of approximately 46%. The retail sector is only 2-3%, thereby creating lot of potential for future players. This sector employs 7% of workforce in India, mainly in unorganized sector.

Meaning of Foreign Direct Investment (FDI)

As a part of the national accounts of a country, and in regard to the national income equation Y=C+I+G+(X-M), I is investment plus foreign investment. FDI refers to the net inflows of investment(inflow minus outflow) to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It usually involves participation in management, joint-venture, transfer of technology and expertise.

There are two types of Foreign Direct Investment (FDI): inward foreign direct investment and outward foreign direct investment, resulting in a net FDI inflow (positive or negative) and "stock of foreign direct investment", which is the cumulative number for a given period. According to Ernst and Young, foreign direct investment in India in 2010 was $44.8 billion, and in 2011 experienced an increase of 13% to $50.8 billion.. India has seen an eightfold increase in its FDI in March 2012. To have a competitive edge business invest all over the globe to access markets, technology, and talent. FDI data are a clear indicator of the trend toward globalization.

Foreign Direct Investment Policy In India

In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to invest in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30 percent of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores.
On 14 September 2012, the government of India announced the opening of FDI in multi brand retail: in aviation upto 49%, in Broadcast sector upto 74%. The Union Cabinet has approved 51% FDI in multi-brand retail and raised the cap on FDI in single-brand retail from 51% to 100%.
On 20 September 2012, the Government of India formally notified the FDI reforms for single and multi brand retail, thereby making it effective under Indian law. The government permitted 51% FDI in multi-brand retail and 100% FDI in single-brand retail. However, Compliance with over thirty regulations and taxes for moving goods from state to state, and even within states, lack of back-end warehouse infrastructure and state-level permits and red tape continue to limit growth of organised retail.

Research Methodology

The research methodology adopted in the study is analytical, descriptive and comparative. Emphasis has been placed on secondary and online database. Along with it, reviews posted on various sites have been analyzed to examine the impact of FDI in retail among different categories of people i.e. retailers, consumers, producers, etc.

Foreign Direct Investment (FDI) In Retail Sector In India

The recent policy about opening up the retail sector to Foreign Direct Investment (FDI) has become a very sensitive issue. The most important factor against FDI driven “modern retailing” is that it is labour displacing. As per present regulations, no FDI is permitted in retail trade in India. Allowing 49% or 26% FDI (which have been the proposed figures till date) will have immediate and direct consequences. It is seen as a threat that the entry of foreign players now will disrupt the current balance of the economy. It will render millions of small retailers jobless by closing the small slit of opportunity available to them by the monopoly of big retailers.

With politicians arguing that the global retailers will put thousands of small local players and fledging domestic chains out of business. The only opening in the retail sector so far has been to allow 51% foreign stakes in single brand consumer stores, private labels, high tech items/ items requiring specialized after sales service, medical and diagnostic items and items sourced from Indian small sector (manufactured with technology provided by the foreign collaborations). Parties supporting the FDI suggest that the FDI in retail should be opened in a gradual/ phased manner, such that it can promote competition and contribute to the growth of the Indian economy.
The impact of the FDI would benefit the end user of the consumer to a great extent and will help to generate a decent amount of employment as more and more entrepreneurs would be coming forward to invest and taste the new generation in retail marketing. The opening of FDI should be designed in such a way that many sectors – including agriculture, food processing, manufacturing, packaging and logistics would reap benefits.

New challenges will yield new entrepreneurs. The bold decision taken will bring down the food prices, post-harvest wastage of tons of food will be reduced, new jobs will be created and advent of new innovative technology brought in by the international players will add to the wealth of the nation.

Impact of FDI In Retail

Retailing is not an activity that can boost GDP by itself. It is only an intermediate value-adding process. If there aren’t any goods being manufactured, then there will not be many goods to be retailed, thus underlining the importance of manufacturing in a developing economy. The opening of Indian retail sector to Foreign Direct Investment (FDI) is considered a win-win situation for farmers. Farmers would benefit significantly from the option of direct sales to organized retailers. The profit realization for farmers selling directly to the organized retailers is expected to be much higher due to transparency than that received from selling in the mandis/small markets.

FDI in multi-brand retail is likely to result in increase in investments and growth in Indian retail sector, which is ranked amongst the top retail destinations in the world. Besides new entrants / joint ventures, this could also result in combination of existing cash and carry operations of foreign players with retail operations of Indian retailers, or, foreign retailer acquiring stakes in existing Indian retail entity. Also, this could provide further options to existing Indian retail chains / groups to raise long term capital for expansion. Foreign multi brand retailers may now explore Indian presence by having stake in Indian retail company.

- **Growth and Improvement in Retail capability building**

Due to lack of retail experience & capability there has been subdued growth in these years. FDI in retail will make way for inflow of knowledge from international experts which can give boost to the overall growth of the industry. Apart from financial investments, capability building is extremely important for the industry.

- **Greater availability of jobs**

With the advent of FDI in retail sector there shall be more job and employment opportunities. New technologies and its diffusion will provide new talents and cater to the needs of many.

- **Boost to Infrastructure and improvement in management of supply chain**

FDI in retail will boost investment in infrastructure from the retail players, 3rd party supply chain companies as well as the Government in the back of a sophisticated front end that international players are likely to bring. This will improve the efficiency of the supply chain, which will bring down the wastage, increase efficiency and reduce the overall cost to the consumer.

- **Push to productivity - The Farming Community in India**

The productivity in food & agriculture is one of the areas where there is a significant opportunity for up-liftment of output with investment in better farming practices. FDI in retail will mean that the farming community will have a new support group with a common interest which is expected to give a great push to productivity. The small farmers shall reap better profits by direct approach to suppliers without the aid of middlemen.

Benefits of FDI in Retail may be summed up as-

- Boost in local sourcing.
- better value for money to end consumers.
- Investments and improvement in the supply chains and warehousing.
- Assisting farmers in becoming competitive suppliers to supermarkets.
- Providing growth in infrastructure.
- Implementation of Information Technology in retail.
- Displacement of middlemen involved in the supply chain of farm produce.
- Inflow of investment and funds.
- Improvement in the quality of employment.
- Regulation of misleading statements and advertisements
- Regulatory framework to avoid monopolistic practices

Probable Limitations of FDI in Retail

- May give rise to cut-throat competition .
- It may create monopoly of big retailers.
- Can bring increase in the real estate prices.
- Marginalize domestic entrepreneurs.
- The financial strength of foreign players would displace the unorganized players.
- Absence of proper regulatory guidelines would induce unfair trade practices like predatory pricing.
- Big players can knock-out competition.

IMPACT OF FDI ON INDIAN ECONOMY

- Healthy competition will be boosted and there will be a check on the inflation of prices.
- It will create more transparency in the system specially intermediaries operations.
- Creation of new jobs with the advent of technology brought in by the international players will add to the wealth of the nation.
- Technology diffusion plays a central role in the process of economic development. Foreign direct investment by multinational corporations (MNCs) is considered to be a major channel for the access to advanced technologies by developing countries.
- The survey suggests that FDI is in fact an important vehicle for the transfer of technology, contributing to growth in larger measure than domestic investment. Moreover, there is a strong complementary effect between FDI and human capital, that is, the contribution of FDI to economic growth is enhanced by its interaction with the level of human capital in the host country.

Conclusion

- Recent analyses of the effects of foreign direct investment on local firms suggest that foreign investment robustly increases local productivity in developing and transition countries. FDI influx could change the face of Indian retail by offering quality goods at lower prices to the consumers. Moreover, the presence of global retailers in Indian retail industry will further enhance exports from India as they would also source Indian goods for their international outlets, leading to an expressive increase in Indian exports.

- The retail industry, excluding wholesale, contributed $482 billion (22% of GDP) and employed 249.94 million people (57% of the workforce) in 2016. The industry is the second largest employer in India, after agriculture. The Indian retail market is estimated to be US$600 billion and one of the top-five retail markets in the world by economic value. India has one of the fastest-growing retail markets in the world, and is projected to reach $1.3 trillion by 2020.

- According to New World Wealth, India's total wealth increased from $3,165 billion in 2007 to $8,230 billion in 2017, a growth rate of 160%. India's total wealth rose by 25% from $6.2 trillion in 2016 to $8.23 trillion in 2017, making it the sixth wealthiest nation in the world. India's gross domestic product (GDP) is expected to grow 7.2 percent in 2017-18, World Bank indicated in its bi-annual economic India Development Update.
- The biggest contribution from FDI will be in the form of best practices these companies have learned from all over the world. It will remove or at least reduce the presence of the middlemen which in turn will reduce the prices for consumers, and better price realization for the producers. The findings of the study point out that FDI in retail would surely enable India to integrate its Economy with that of the global economy. It would further boost the reform sector in the retail industry.

- Thus, FDI in the Indian retail sector should be significantly encouraged and promoted to keep pace with the changing scenario of the global market. Further, the opening of FDI should be designed in such a way that many sectors – including agriculture, food processing, manufacturing, packaging and logistics would reap benefits, boosting the overall economic growth.

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