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FOREIGN DIRECT INVESTMENT IN INDIA: A SECTORAL ANALYTICAL STUDY OF INDIAN RETAILER SECTOR

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Abstract:- India is the second fastest growing economy in the world, third largest economy in terms of GDP, and fourth largest economy in terms of purchasing power. Keeping this view the researchers has critically analyzed the FDI in retail sector in India. It examined retail industry in India, FDI policy of retailing in India, Reviews of opinion, SWOT analysis, single and Multi-brand retailing, sector wise FDI inflow, year wise FDI inflow, sector specific limits of FDI in India. The study is based on secondary and web based information. Researcher had discussed with retailers, bankers, academicians, government officials, political leaders, newspaper reporters and general public on this issue. Retail sector in India has undergone significant changes and is fast emerging. Inviting FDI in retail sector is a progressive measure. The retail revolution will restructure the Indian Economy. It is argued that FDI would provide additional marketing channels for farmers, more consumer's choice, better packaging of goods, electronic weighting, billing, product quality through global competition.

It is observed from the study that highest FDI inflow is in service sector in India amounted to Rs. 191,752.15 up to July, 2014 i.e. 17.73 percent of the total FDI. The lowest FDI inflow is in the Commercial, Office & Household Equipments Sector i.e. Rs.1420.20 Crore (0.13 percent). It is observed that mostly agriculture, industry, manufacturing and civil aviation has 100 per cent FDI inflow with automatic entry route. Whereas defense, banking, insurance, telecom sector has different FDI limits and various entry route. In single-brand retail FDI up to 51 per cent is allowed and FDI in multi-brand retailing in India is not permitted.

Keywords:FDI, Retail, Multi-brand retailing, FIPB, DIPP, OECD, SIA, OCBN, FICCI, ICRIER.

INTRODUCTION

Retail is India's largest business activity. The world retail means to sale or sold directly to individuals. Retailing means any business that directs its marketing efforts towards satisfying the needs of final consumers. In India there are different forms of the retail they are Malls, Discount Stores, Department Stores, Hyper Marts, Super Markets, convenience Stores, Multi-Brand Outlets.

Foreign Direct investment (FDI) refers to net inflows of investment. It is defined as investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new site. In simple words, FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. Foreign direct investment is done for many reasons including to take advantage of cheaper wages in the country, 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 can be defined as a cross border investment, where foreign assets are invested into organizations of the domestic market excluding the investment in stock. It brings private funds from overseas into products or services in the past decades; FDI was concerned only with highly industrialized countries. US was the world's largest recipient of FDI during 2006 with an investment of 184 million from OECD i.e. Organization for Economic Co-operation and Development countries. France, Greece, Iceland, Poland, Slovak Republic, Switzerland and Turkey also have a positive record in FDI investment. Now, during the course of time, FDI has become a vital part in the every country more particularly with the developing countries.

REVIEWS OF LITERATURE

1. Venkaiah Naidu, BJP leader said, current situation of economy was the result of government's wrong priorities and overall policy paralysis. Multinational retailers are continuously putting pressure on the government to take anti-national decision of allowing FDI in retail trade. It would destroy employment.
2. However, AICC general secretary Rahul Gandhi said the decision will help farmers prosper by removing middlemen from the supply chain and generate new jobs. FDI in retail will help farmers store their produce safely for a longer duration, thus ensuring best value for their crop. FDI will also create lot of new jobs, which will lead to higher income generation but also significantly reduce unemployment, thereby having a salutary effect on the economy.
3. Haryana Chief Minister Bhupinder Singh Hooda said he is in favour of FDI in multi-brand retail. It will help farmers. They will get right prices of their produce because companies will purchase directly from them. Consumers would also get quality products at comparatively cheaper rates.
4. Dr.C.Rangarajan, Chairman of the Prime Minister's Economic Advisory Council said the aim of the modern organized retail was to offer better prices to both consumers and producers and reduce the gap between two, due to scale in procurement, handling and logistics. The existence of large retail chains even in advanced countries has not wiped out the small shopkeepers. They retain personal touch which is absent in large outlets.

RETAIL INDUSTRY IN INDIA

The High Court of Delhi (2004) 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. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit.

Retailing is one of the world's largest private industries. Liberalizations in FDI have caused a massive restricting in retail industry. The benefit of FDI in retail industry superimposes its cost factors. Opening the retail industry to FDI will bring forth benefits in terms of advance employment, organized retail stores, availability of quality products at a better and cheaper price. It enables a countries product or service to enter into the global market.

DIVISION OF RETAIL INDUSTRY IN INDIA

The retail sector in India is the largest source of employment after agriculture and has deep penetration into rural India generating more than 10 per cent of India's GDP.

The retail industry in India is mainly divided into (1) organized retailing and (2) Unorganized retailing. 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 hyper markets and retail chains and also the private owned large retail businesses. Whereas, unorganized retailing 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.

However, the Indian retail sector is highly fragmented with 97 per cent of its business being run by the unorganized retailers i.e. kirana shops, general stores, pan/ beedi shops etc. The organized retail is at a very nascent stage.

FDI IN SINGLE BRAND RETAILING

Single brand retail involves selling products under one brand, which are also sold internationally. Examples are Nike, Gucci, Lotto, Levis etc. In single-brand retail, FDI up to 51 per cent is allowed, subject to Foreign Investment Promotion Board (FIPB) approval and subject to the conditions. Only single brand products would be sold (i.e. retail of goods of multi-brand even if produced by the same manufacturer would not be allowed). Products should be sold under the same brand internationally. Single brand product retail would only cover products which are branded during manufacturing and any addition to product categories to be sold under 'single-brand' would require fresh approval from the government.

FDI IN MULTI-BRAND RETAILING

India is second largest populated country in the world and is acknowledged as the biggest market in the world next to china. Any customer would develop brand loyalty based on the personal experience and satisfaction.

Brands help the customers to identify specific products from among identical commodities. Brands have significant impact on developing customer perception and expectations

FDI in multi-brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous kirana store. Multi-branding is basically the process of marketing of two or more widely similar and competing products by the same firm under different brands. Multi-brand retail comes in different formats like supermarket, hypermarket, and the shopping malls. FDI in multi-brand retailing is not permitted in India. If it is permitted, it would open the doors for global retail giants to enter and establish their footprints on the retail landscape of India. Department of Industrial Policy and Promotion, DIPP (July 2010) Ministry of Commerce does not suggest any upper limit on FDI in multi-brand retail.

SWOT ANALYSIS

Retailing is not a pill for all our agricultural marketing problems. It is not logical to believe that what democratic governments could not solve in 65 years, retail marketing could do. For the developing country like ours, the inflow of foreign capital may be significant in raising productivity, lower product prices, and higher tax revenue.

More consumers' choices, better inventory management, better packaging of goods, electronic weighting, billing, customer discount, global standards in terms of pricing and product quality through global competition and global outsourcing, potential generation of thousands plus jobs in the sector are the strength of FDI in multi-brand retail. Small orders and customers may be ignored, global sourcing of products and long transports are hugely energy intensive and customers are likely to get refrigerated or frozen produce instead of farm fresh produce, retail being a state subject, problems like multiple state entry taxes, octroi may crop up may be the weakness of FDI in multi-brand retail.

FDI may help in organizing the unorganized retailers, heavy capital inflow and art of technology to the sector, strengthening of back-end infrastructure, reduction in wastage of fresh produce through investments in cold storage facilities are the opportunities.

International retailers struggling with saturated markets may find new market opportunities, big retail shops are meant for high class customers and product set premium price, attracting and retaining middle and low income customers would be tough, political opposition to foreign retail network for fear of gradually wiping out unorganized retail sector may consequently lose jobs, retail trade is a state subject and all regulatory framework have to be provided by respective state governments, lack of uniformity may lead to chaos and court cases are the threats of FDI in retail in India.

Sector Wise Analysis of FDI in India:

Statement Showing Sector Wise FDI Inflow in India
(April, 2000 to July, 2014)

Sr. No.	Sector	Amount of FDI Inflows (in Crore Rs.)	% With Total FDI Inflows
1	Service Sector	191,752.15	17.73
2	Construction Development	111,127.49	10.40
3	Telecommunication	80,608,47	7.23
4	Computer Software & Hardware	61,707.07	5.76
5	Drugs & Pharmaceuticals	61340.03	5.47
6	Automobile Industries	49,678.09	4.41
7	Chemicals	47,538.99	4.40
8	Power	44,667.08	4.05
9	Metallurgical Industries	39,225.17	3.61
10	Hotel & Tourism	38,030.37	3.25
11	Petroleum & Natural Gas	31,501.55	2.84
12	Food Processing Industries	34,719.02	2.61
13	Trading	29,742.09	2.53
14	Information & Broadcasting	18,189.01	1.64
15	Electrical Equipments	17,792.64	1.62
16	Non-Conventional Energy	17,053.31	1.44
17	Industrial Machinery	15,490.15	1.33
18	Cement & Gypsum Products	13,446.47	1.27
19	Consultancy Services	13,148.03	1.17
20	Misc. Mechanical & Engineering Goods	12,413.44	1.15

21	Construction Activities	12,953.51	1.15
22	Hospital & Diagnostic Center	12,413.57	1.07
23	Fermentation Industries	10,591.66	0.88
24	Agriculture Services	8,517.34	0.76
25	Ports	6,719.33	0.72
26	Rubber Goods	8,826.68	0.71
27	Textiles	7,058.86	0.64
28	Electronics	6,337.12	0.59
29	Sea Transport	6,120.34	0.57
30	Prime Mover	5,890.88	0.50
31	Mining	4,651.50	0.46
32	Education	4,961.76	0.42
33	Paper & Pulp	4,235.30	0.39
34	Medical & Surgical Appliances	4,467.39	0.38
35	Soaps, Cosmetics & Toilet Preparations	4,175.86	0.35
36	Machine Tools	3,407.95	0.30
37	Ceramics	3,115.31	0.29
38	Railway Related Components	3,393.95	0.28
39	AIR Transport	2,348.12	0.22
40	Diamond, Gold Ornaments	2,185.63	0.20
41	Glass	2,207.85	0.19
42	Vegetable Oils and Vanaspati	2,095.22	0.18
43	Printing of Books	2,138.83	0.18
44	Agricultural Machinery	1,821.57	0.16
45	Fertilizers	1,543.76	0.14
46	Commercial, Office & Household Equipments	1,420.20	0.13

(Source: Department of Industrial Policy & Promotion, Government of India, Ministry of Commerce & Industry)

The above table depicts Sector Wise FDI Inflow in India. FDI inflow in India is important Cash Inflow in India. The data relates for the period of April, 2000 to July, 2014. There are many sectors where FDI in India is observed. It includes Service Sector, Construction, Telecommunication, Computer Software & Hardware, Drugs, Automobiles, Chemicals, Power, Metal, Hotel & Tourism, Petroleum, Food Processing, Cement, Rubber Goods, Electronics, and Mining etc.

It is observed from the study that highest FDI inflow is in service sector in India amounted to Rs. 191,752.15 up to July, 2014 i.e. 17.73 percent of the total FDI. The lowest FDI inflow is in the Commercial, Office & Household Equipments Sector i.e. Rs.1420.20 Crore (0.13 percent)

Construction Development Sector including townships, housing, infrastructure FDI is Rs. 111,127.49 Crore i.e. 10.40 percent of the total FDI inflow in India followed by Telecommunication 7.23 percent, Computer Software 5.76 percent, Drugs & Pharmaceuticals 5.47 percent, Automobile 4.41 percent, Chemicals 4.40 percent, Power 4.05 percent, Hotel & Tourism 3.25 percent, Petroleum & Natural Gas 2.84 percent, Food Processing 2.61 percent, Information & Broadcasting 1.64 percent, Non-conventional Energy 1.44 percent, Cement & Gypsum 1.27 percent, Agricultural Services 0.88 percent, Rubber 0.72 percent, Textiles 0.64 percent, Mining 0.46 percent, Medical Surgical Appliances 0.38 percent Air Transport 0.22 percent, Diamond & Gold Ornament 0.20 percent, Printing of Books 0.18 percent, and Fertilizer 0.14 percent.

CONCLUSION:

Retail Sector has been considered as a Sunrise Industry because FDI inflow in India undergoes progress in Indian economy. It helps in economic reforms in the country leads to structural changes in our economy. It is a major source of employment and job market. The retail sector in India is the largest source of employment after agriculture and has deep penetration into rural India generating more than 10 per cent of India's GDP. The Indian retail sector is highly fragmented with 98 per cent of its business being run by the unorganized retailers. The organized retail is at a very nascent stage. The unorganized retail sector contributes about 14 per cent of the GDP and absorbs about 7 per cent of our labour force. It is seen that agriculture related people will get good price for their goods. It would provide an additional marketing channel for the farmers. Direct selling of the produce by producers to the retailers will reduce wastage. Infrastructural and technological requirements in the new multi-brand stores may stimulate intensive consumer research and result in product innovations and better customer services. More consumers' choice, better inventory management, better packaging of goods, customer discount, global standards, strengthens infrastructure, cold storage facilities are the benefits of FDI in retail in India. Mainly FDI may help in organizing the unorganized retailers. Due to FDI in retail in India approximately 1 million employments will create in every year and Billion dollars will be invested in Indian market, which may revolutionalize retail sector in India.

Against the aforesaid benefits of foreign investment in retail, there are certain costs associated with such investments from the standpoint of the hosting country. There cost may arise from special concessions offered by the host country, adverse effect on domestic savings, deterioration in terms of trade and problems of balance of payment adjustment.

It is observed that due to FDI in retail 50 million merchants will affect from India. Profit distribution, investment ratios are not fixed. An economically backward class person suffers from price raise. Market places are situated too far which increases travelling expenses. Workers safety and policies are not mentioned clearly. Inflation may be increased and again India becomes slaves because of FDI in retail sector.

Study suggest that FDI should increase in the field of Hospital, Agriculture, Textile, Mining, Education, Medical, Vegetable oil and Vanaspati, Agricultural Machanary and Fertiliser Sectors. It will help to boost premier sector of Indian economy.

The fear is that the emergence of multibrand retailing will eliminate small scale kirana shops. But we have already local players like Reliance Fresh and Big Bazar and local traders were not affected from these retailers.

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