FOREIGN DIRECT INVESTMENT IN INDIA: AN ASSESSMENT OF THE IMPACT OVER THE RETAIL SECTOR

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ABSTRACT

It is a matter of immense pleasure that, since last duration, India has been placed at first position in the category of countries with the ample opportunity for investment in retail sector. One of the main reasons for such attractive buoyancy can be seen as the increasing disposable incomes specially among the Indian middle class and increasing infantile population. Retailing in India accounts for 14 to 15 percent of its GDP and thus can be counted as one of the pillars of its economy. India is considered to be one of the fastest growing retail markets in the world, with 1.2 billion people and the reason being that it is estimated to be US $450 billion and one of the top five retail markets in the world in terms of its economic value.

If to mark the series in incidences, it is on records that, on December 5, 2012 in Lok Shaba it was decided for approving and allowing FDI in retail as per the cabinet approval with some amendments including some clause like FDI in retail in cities with a population over one million as well as the states of India have the prerogative to accept it and implement it or they can decide to implement it if they so choose etc.

Actual implementation of policy was categorised under the consideration of state law and regulations. Finally, beating various hurdles on 14 September, 2012 the cabinet approved the foreign direct investment in retail in India allowing 100% FDI in Single Brand and 51% FDI in Multiple brand with many terms and conditions. The minimum FDI limit now has been set at $100 million. Further clause explained that, half of any investment has to make in infrastructure like cold-storage chains and warehouses with at least 30% of the goods to be sold will have to source from home producers.

This Research Paper makes an attempt of budding an insight as to compile the trends in the Indian Retail Industry and to the booms and bain of FDI in this sector. It also tries to draw upon whether this policy will be beneficial for the Indian Economy as a whole or not.

Key Words : *FDI (Foreign Direct Investment), organized retailing, (consumer price index), GDP (Gross Domestic Product)*

INTRODUCTION

The proposition of FDI in Retail has faced a long term controversy, series of discussions and debate but ultimately the worth of the idea was undoubtedly accepted which brought many scenarios in the picture. The issue is formost sensitive when we try to project the future of Indian economy following the path of this liberation.

The past experience shows that, Indian central government had denied foreign direct investment (FDI) in multi-brand retail, with a hostile approach towards foreign groups regarding any ownership in supermarkets, convenience stores or any retail outlets. Not only was this but in single-brand retail ownership limited to 51% under a bureaucratic process. But, gradually in the coming years, India's central government adopted a liberal approach towards the retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way not only towards retail modernization but competition with multi-brand retailers such as Wal-Mart, Carrefour and Tesco, and in the arena of single brand with majors such as IKEA, Nike, and Apple. The announcement did glimmer stern activism, both in opposition and in support of the reforms. But, the undeniable fact that stand firm showing that India has got great potential of development and exploration put an ease in adopting the idea of liberalization and globalization. The below given two tables are clearly the same:

India as a country of high potentials

Country Share in Global Organized Retail Sale

Country	Share of organized trade (per cent) (2003)
India	4
China	17
Poland	20
Indonesia	30
Russia	33
Brazil	35
Thailand	40
Malaysia	55
USA	85

Source: M+M Planet Retail

It is clear from the table above that India's share in organized world trade was only 4%, which is just a skimpy share. But financial reforms which took place in 2012, changed the forecaste saying that Indian market has lot of potential to grow. Even today, world's major retail stores in multi-brand category are eyeing on Indian market.

Share of Private corporate in Worlds Organized Retail Sale

Rank	Company	Estimated share of private labels in 2004 (per cent)
1	Aldi	95
2	Schwarz Group (Lidl)	63
3	Target	46
4	Tesco	45
5	Casino	40
6	Wal-Mart	37
7	ITM (Intermarché)	35
8	Carrefour	32
9	Seven & I	27
10	Rewe	25

Source: M+M Planet Retail

As per the M+M Planet Retail data "private labels today account for 17 per cent of global retail sales, with the highest share of 23 per cent in Europe and the lowest share of 4 per cent in Asia. M+M Planet Retail data shows that private label penetration varies from 25 per cent to 95 per cent among some of the largest retailers in the world. Growing acceptance among consumers, increasing price competition, the need for differentiation among retailers and the ability to offer higher margins are the key factors contributing to the growth of private labels" *

IMPACT OF THE RELAXATION OF FDI POLICY IN RETAIL

(Single Brand / Multi Brand)

- **Single brand**

  Initial observation showed that, FDI investment in single brand retailing was only 0.03% [Rs 204 cr / usd 44 mn] of total FDI investments from April 2000 to September 2011. But as a result of relaxation FDI in retail sector increased, by way of new foreign entrants, or buy outs / increase in stake / M&A amongst existing single brand JVs with foreign partners. Gradually it can be developed that, licensing / distributor / franchise arrangements are getting converted to either JVs (Joint Venture) with respective foreign retailer / brands, and in the course of action, foreign retailers completely buying out the Indian licensee / franchisee / distributor. As a result, India's retail industry was estimated to be worth approximately US$411.28 billion and is still growing, expected to reach more than US$804.06 billion in 2016-17.

- **Multi brand**

  In this sector, the liberal approach has marked in history which can get the Indian economy ranked amongst the top retail destinations in the world. This endeavor can benefit us with the new entrants / joint ventures, not only this but will get the combination of existing cash and transmit operations of foreign players with retail operations of Indian retailers, or, foreign retailer acquiring stakes in existing Indian retail entity. Also, this can give life to the existing Indian retail chains / groups via raising long term capital for expansion and attracting partnerships with some global players. This also attracted, foreign multi brand retailers, who earlier were hesitant to enter India through cash and carry operations, as now they can explore Indian presence by having stake in Indian Retail Company

* M+M Planet Retail data

IMPACT OF THE RELAXATION OF FDI POLICY IN RETAIL

(Glance over a few sectors)

- **Impact over the capital Reserve**

"Foreign exchange (Forex) Reserve as the limit is proposed to be increased to 51% in the multi brand retail, the direct investment from abroad called FDI would inflow to start the business. The inflow of capital would increase the capital reserve in the Balance of payment which shows the ability of the nation in terms of Forex"* *

And the current scenario when FDI limit has been increased far more convising as the RBI reports says that," Foreign Exchange Reserves in India averaged 196694.97 USD Million from 1998 until 2016, reaching an all time high of 383643 USD Million in December of 2009 and a record low of 29048 USD Million in September of 1998". The picture below depicts the same.

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- **Impact over the Agricultural sector**

Indian economy has been facing a problem of fiscal deficit since past which is mostly roots up by subsidy give to the farmers which is considered as sterile. The one way to cut such subsidy is to make the farmers independent by making the system securing them to be paid good price for the commodity. The organized retailers that are capital giant are able to purchase directly from the farmers paying good price. The liberal approach towards foreign participation can enable the government to ensure that the farmers are getting paid the price of what they are eligible to. The SME

(Small & Medium Enterprises) are also encouraged to produce the commodity that is of elevated quality as SME in the norms are reported to be instructed to the foreign player, they should purchase 30% of the product they deal with from the SME. This ensures the development of SME. The foreign player would like to endow with the quality product.

- **Impact over Infrastructure**

The players are imposed with the restriction of investing 50% of their investment on the Back end infrastructure. The ruling party in India where the economic development is suffered by lack of infrastructure is very cautious about to invest in such area. It would become base for economic in many ways, say transportation.

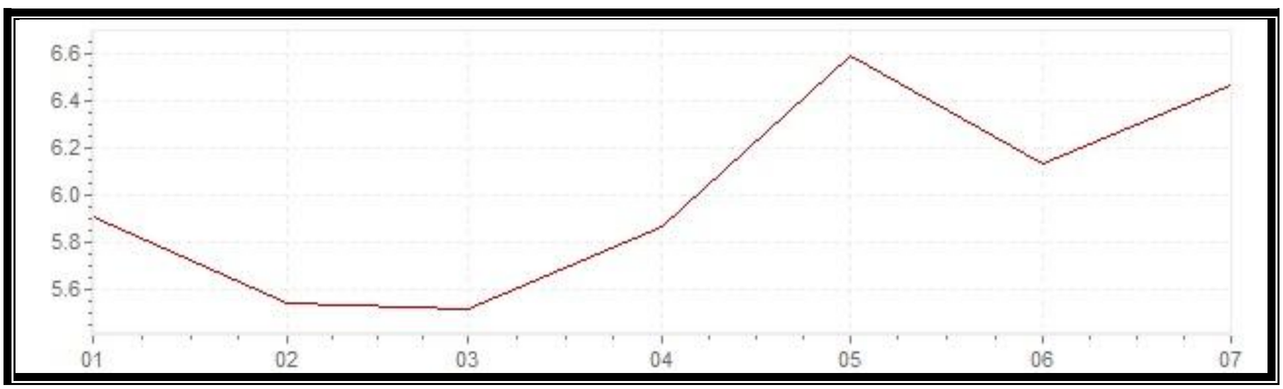
- **Impact over Distribution**

"The distribution system is one of the factors determining the cost of the product. As they are invested in the infrastructure, they could follow JIT. They are not interested in expending in the stock maintenance

" Says Wal-Mart. So the impact can be fluctuating.

IMPACT OVER INFLATION

For a country like India where the price sensitive middle class occupies a heavy spectrum, Inflation is an upsetting one and poses a challenge to the country. The practice is that the lower prices are offered to the consumer by the base which comprises the scale of economy, capital and large turnover. The ingress of multinational players escorts to healthy competition which helps in lowering the prices then inflation consequently. Another resultant benefit is to help in curbing the Food Wastage which contributes a huge towards the scarcity in the country like India with the poverty in one side; the wastage of food is on another. So, With the good back end infrastructure, they can able to serve the goods in an optimization way with the help of an effective distribution system to avoid food wastage.



source:CPI

The CPI (consumer price index) shows an average scale 6.00% in 2016 in india which is quite an undercontroll degree.

- **Impact over GDP (Gross Domestic Product)**

"One of the foremost concerns of the economy is the decline in the GDP mainly due to the agriculture sector. The FDI in retail would improve the GDP by, economist say 0.5%. This booming industry that has potential capacity would contribute the GDP higher." ***

The overall increase and boom in the economy as a result of the development in one of the pillar stand sector (Retail sector) actually affects positively in augmenting the GDP increase in economy.

Source: www.trendingeconomics.com/ WORLD BANK GROUP

"The Gross Domestic Product (GDP) in India was worth 2073.54 billion US dollars in 2015. The GDP value of India represents 3.34 percent of the world economy. GDP in India averaged 582.99 USD Billion from 1970 until 2015, reaching an all time high of 2073.54 USD Billion in 2015 and a record low of 63.50 USD Billion in 1970"****

- **Impact over the Employment**

Foreign investment resulting into the enhancement of the production capacity of economy ultimately opens up wide avenues for employment. Employment has been generated in all the major sectors including the agriculture, manufacturing, service industry etc. The more people get employed would rehabilitate the economic cycle resulting setting a downward trend in unemployment in the economy.

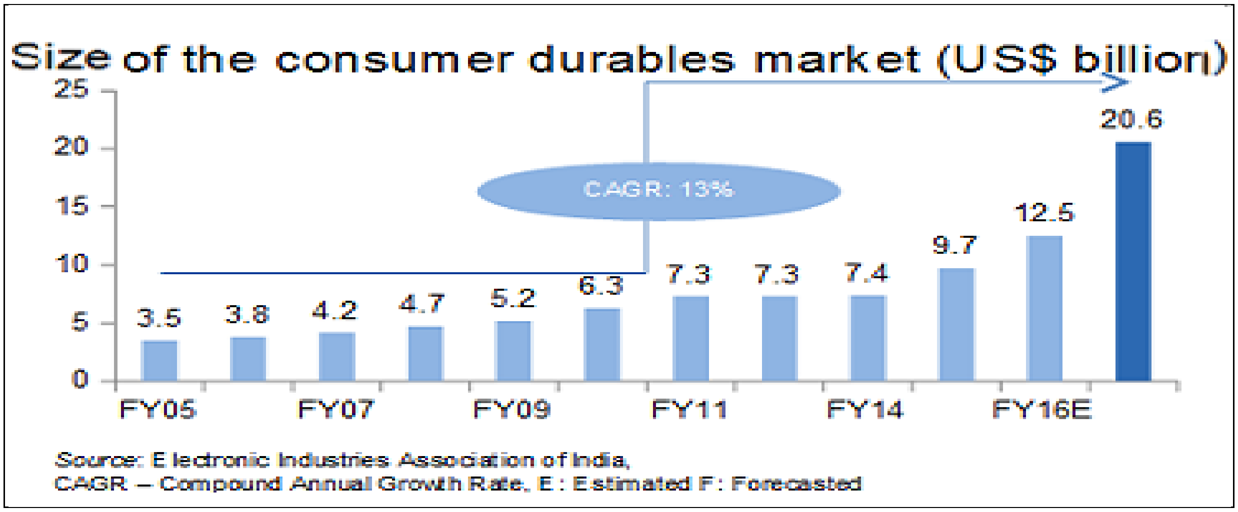
The picture below shows the same with a downfall in unemployment to 4.9% in 2016 from a high level of the problem in the years like 2009 & 2010.

Source:Ministry of labour & employment

*** Abhinav International Monthly Refereed Journal of Research In Management & Technology www.abhinavjournal.com 82 ISSN – 2320-0073 Volume II, March'13 Employment.
**** http://www.tradingeconomics.com/india/gdp/ world bank group

- **Impact over the Consumer group**

Consumer group comprise the largest stratum of the population and this is the reason why this class govern the economy. the opening of FDI in multi brand retail ultimately has benefited this consumer class not only in terms of the better and varied quality but also in terms of the reasonable, lesser and competitive prices. In a country like India, middle income people with their high elasticity od demand are really reaping the benefits this way. One of the examples of consumer durable market is depicted below
Here the bars are showing an upsurge towards FY16.



A GLANCE OVER ANOTHER ANGLE

Another aspect portrays a bit different picture too. Foreign players would implement new strategy that poses cut throat competition. Middle Man will also get affected being a part of the supply chain including non-hoarders. In the long run, unemployment may also arise in the crunch of trade business .only an appropriate policy by the government can help the situation aptly..

Another threat can be the dependability where, the country may depend on another country influenced by the increasing FDI inflow and the country independency is diminishing which in turn endangered the economic growth. The capital giant may also dominate the industry exceeding the domestic player and resultantly the revenue would outflow abroad affecting Forex reserve.

CONCLUSION

It can be resolutely stated that FDI in retail will have a far-reaching impact on various aspects of the economy. If spin around in phases and with proper checks and balances, it will give a boost to the economy. Customers will get a wide range of excellence goods at reasonable prices. They will be able to buy the best brands across various categories. Large investments in infrastructure would lead to an augment in farm productivity, manufacturing and food processing as well as cold storage facilities. This would cut down wastage and spur growth in employment, exports and GDP. It can also help revive the textile and handicrafts sector. With appropriate watch and monitoring, our exports can double in three years. The introduction of technology and good management practices will improve product availability, reduce wastage and improve quality and customer satisfaction. China is an example of successful implementation of FDI in retail in a phased manner. On the contrary over the unorganized sector front, the traditional players are said to get affected on account of opening of FDI in multi brand retail. But, government should take precautionary measure framing the rules to ensure that any industry would not get affected. On the periodical manner, there shall be a proper check over, how much it contributes towards the growth of the economy and impact in other industry in real terms.

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