Vol 4 Issue 11 May 2015

ISSN No :2231-5063

International Multidisciplinary Research Journal

Golden Research Thoughts

Chief Editor
Dr.Tukaram Narayan Shinde

Publisher
Mrs.Laxmi Ashok Yakkaldevi

Associate Editor
Dr.Rajani Dalvi

Honorary
Mr.Ashok Yakkaldevi

Welcome to GRT

RNI MAHMUL/2011/38595 **ISSN No.2231-5063**

Golden Research Thoughts Journal is a multidisciplinary research journal, published monthly in English, Hindi & Marathi Language. All research papers submitted to the journal will be double - blind peer reviewed referred by members of the editorial board.Readers will include investigator in universities, research institutes government and industry with research interest in the general subjects.

Address:-Ashok Yakkaldevi 258/34, Raviwar Peth, Solapur - 413 005 Maharashtra, India
Cell : 9595 359 435, Ph No: 02172372010 Email: ayisrj@yahoo.in Website: www.aygrt.isrj.org

International Recognized Double-Blind Peer Reviewed Multidisciplinary Research Journal
Golden Research Thoughts
ISSN 2231-5063 Impact Factor :3.4052(UIF)
Volume - 4 | Issue - 11 | May - 2015 Available online at www.aygrt.isrj.org

IMPACT OF FOREIGN DIRECT INVESTMENT ON INDIAN RETAIL SECTOR: AN ANALYSIS

Hemlata
Assistant Professor , Department of commerce , Lakshmibai College ,University of Delhi, Delhi .

Short Profile

Hemlata is working as an Assistant Professor , Department of commerce at Lakshmibai College in University of Delhi, Delhi .

Co - Author Details :

Sumita Jain
Assistant Professor , Department of Commerce , Daulat Ram College, University of Delhi,Delhi.

ABSTRACT:

Before liberalization, India's approach towards Foreign Direct Investment as an instrument of growth and development was rigid and restrictive. Things, however, changed in the post liberalization period. Since post liberalization period, India has observed a major retail boom due to changes in the income levels, lifestyles, taste & habits of consumers. The increased demand for superior quality and branded products has given a boost to Indian retail sector in recent years. Until 2011, India January 2012, Government has notified the much-awaited policy allowing 100% FDI from the existing 51%. In September 2012, government has permitted trading subject to some specified conditions. It will offer a plethora of opportunities to foreign investors as Indian Economy is more flourishing as compare to its global peers. The present project report focuses on the overview of the Indian retail sector and helps to understand the present scenario of FDI in the Indian retail. The report further analyses the Indian retail sector with help of SWOT analysis.

KEYWORDS

FDI, Indian retail sector, single-brand retail, multi-brand retail.

INTRODUCTION :

an effective tool for economic growth. It will help to integrate the Indian economy with the global economy. The FDI policy is being progressively liberalized on an ongoing basis in order to allow FDI in more industries under the automatic route. Some recent changes in FDI policy, besides consolidation of the policy into a single document include trading subject to specified conditions; increasing FDI limit to 100 per cent in single-brand retail trading; FDI up to 49 percent in civil aviation and power exchanges; FDI up to 49 percent in broadcasting sector under the automatic route and FDI above 49 percent and up to 74 percent under the Government route both for teleports and mobile TV (Press note no DIPP, GOI, 2012). Though at present only 53 cities with population not less than 10 lakh in the country have been identified for FDI (The Times of India, Nov 29, 2011). (CSE India Portal, 2012). Of this, organized retail only forms 7.8% of the pie (India Retail Report, 2013). Hence, there is enormous scope for expansion through the support of infrastructure and investment. Furthermore, while unorganized retail has been pegged at a rate of 6% annually, organized retail has been booming at an amazing growth rate of 30% (Jain & Godha, 2012). The International Business Times (US edition) has already confirmed that Walmart is to launch its first Indian store within 12-18 months. Thus, being the first to enter the US$500 billion retail market of India. The government has approved the Walt Disney Company South East Asia's foreign direct investment (FDI) proposal to transfer INR 10 billion into Walt Disney Company India to increase foreign equity. Besides Disney's proposal, the government has also approved nine other FDI proposals amounting to approximately INR 2.59 billion (Kumar & Chatwal, 2012). India's organized retail market could attract up to $16 over the next three years (Reuter, 2012).

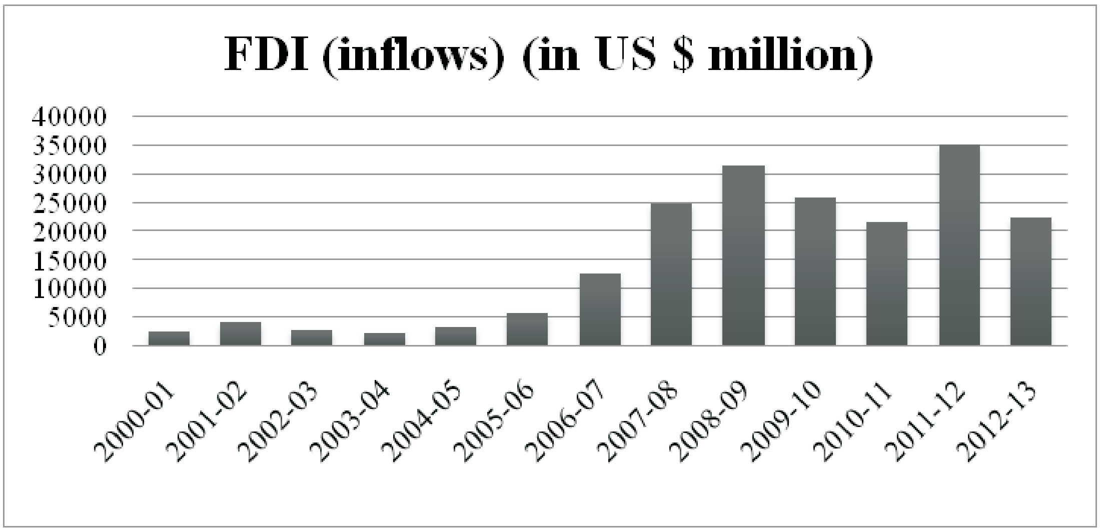
OBJECTIVE OF STUDY

1.To understand the Present Scenario of Foreign Direct Investment in the retail sector in India. Government of India has made several policy changes allowing, 100% FDI in single brand retail and As a result the entire scenario of retail sector in India has been changed completely.
2.To analyze the of Foreign Direct Investment on Indian Retail Sector.
3.To recommend measures that government should employ to enhance the competitiveness and market attractiveness of the Indian retail sector.

FOREIGN DIRECT INVESTMENT

Foreign direct investment reflects the aim of obtaining a lasting interest of a resident entity in one economy (direct investor) in an entity that is resident in another economy (direct investment enterprise) – covers all transactions between direct investment enterprises (IMF, 1993 & UNCTAD, 1996). As the third-largest economy in the world in PPP (Purchasing power parity) terms, India is a preferred destination for FDI. During the year 2011, FDI inflow into India stood at USD 36.5 billion, 51.1 percent higher than 2010 figure of USD 24.15 billion. During 2000-10, the country attracted $178 billion as FDI (Zee News, India, 2012).

CHART I: FDI ((inflows) IN INDIA IN RECENT YEARS

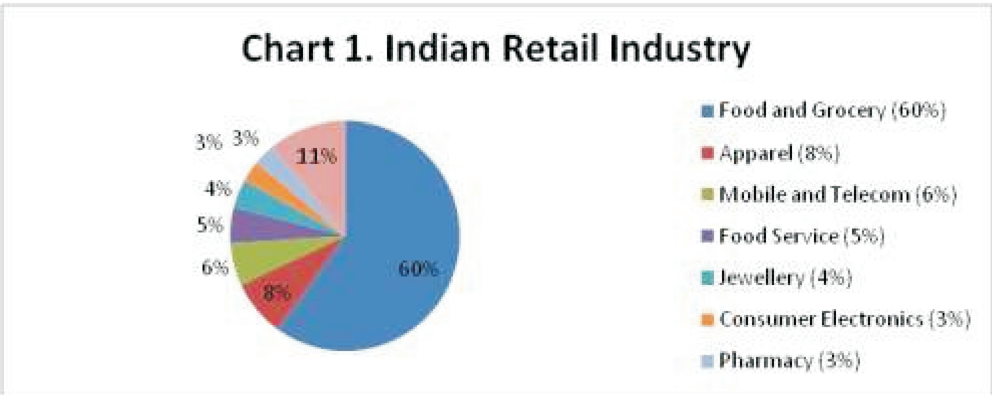


Source: DIPP, 2013

INDIAN RETAIL SECTOR

Retail means sale of goods or commodities to ultimate consumers (Delhi High Court, 1994). Retail sector can be divided into two heads i.e. organized kirana store i.e. grocery shop, (Corporate Catalyst India, 2012). experienced growth of 10.6% between 2010 and 2012 and is expected to increase to USD 750-850 billion by 2015 (Deloitte, 2013).

Chart II: Indian Retail Industry



Source: India Retail Report 2013, Images Group

GROWTH OF INDIAN RETAIL SECTOR

Total retail sales have grown from Rs. 10,591 billion (US$ 230 billion) in 2003-04 to Rs. 14,574 billion (US$ 322 billion) in 2006-07 and subsequently to US$ 411.28 billion in 2011 and by 2015 which is at an annual compound growth rate of about 11 per cent , the organized retail sales grew much more at about from Rs. 350 billion (US$ 7.6 billion) in 2003-04 to Rs. 598 billion (US$ 13.2 billion) in 2006-07. As a result, the share of organized retail in total retail grew, although slowly, from 3.3 per cent in 2003-04 to 4.1 per cent in 2006-07 and currently is fairing at almost 6% (Mishra & Sharma, 2012).

TABLE II: GROWTH IN INDIAN RETAIL SECTOR AND MODERN RETAIL

	2010 (Rs in crore)	2012 (Rs in crore)	GROWTH %	Est. 2015 (Rs in crore)	EST Growth
Total Retail	21,19,634	28,50,055	16.0	47,80,318	18.8
Modern Retail	1,38,961	2,23,572	26.8	4,87,423	29.7
Share % of Modern Retail	6.6	7.8		10.2	

Source – India Retail Report 2013, Images Group

GOVERNMENT POLICIES REGARDING FDI IN INDIAN RETAIL SECTOR

Govt. of India is stiff on implementing the FDI policy as it feels that FDI is beneficial for the economic growth of country. As a part of Economic Liberalization process, the following steps:

1991- Indian economy opened FDI up to 51% allowed under the automatic route in select priority sectors.
1997- FDI up to 100% Cash & Carry (wholesale).
2006 - FDI up to 51% allowed with prior Government approval in 'Single Brand Retail'.
2011 - 100% FDI in single-brand retail permitted.
2012 - has been allowed up to 51 percent under the government route and subject to specified conditions (Kumar & Chatwal, 2013).

The states that have agreed to allow foreign investment in multibrand retail are J&K, Maharashtra, Manipur, Rajasthan, Uttarakhand and the uts like Daman & while states such as have expressed their reservations.

VIEW POINTS OF VARIOUS ORGANISATIONS

Industrial organizations such as CII, FICCI, US-India Business Council (USIBC), the American Chamber of Commerce in India, The Retail Association of India (RAI) and Shopping Centers Association of India (SCAI, a 44 member association of Indian multi-brand retailers and shopping malls) support a phased approach toward liberalizing most of them agree with considering a cap of 49-51 per cent to start with. The international retail players such as Walmart, Carrefour, Metro, IKEA, and TESCO share the same view and insist on a clear path towards 100 per cent opening up in near future. Large multinational retailers such as US-based Walmart, Germany's Metro AG and Woolworths Ltd, the largest Australian retailer that operates in wholesale cash-and-carry ventures in India, have been demanding liberalization of FDI rules on multi-brand retail for some time (Mancheri Nabeel A, 2010).

GLOBAL RETAILING SCENARIO

(Tuli Rajiv, Mishra Anjaneya,& Dawar Deepika, 2013). As per the A.T. Kearney, Global Retail Development Index 2012 report, India ranked at 5th place remains a high-potential market with accelerated retail market growth of 15% to 20% expected over the next five years. x contributes India's GDP, organized retail penetration remains low, indicating room for growth. Brazil tops the ranks with retail sales accounting for 70% of Brazil's consumer spending, followed by Chile, China, and Uruguay. However, recent measures taken by Government of India regarding liberalization of FDI limits are likely to improve investment sentiment and to boost FDI flows into the Indian economy. India is 4th global destination in terms of FDI projects and 3rd global destination in terms of FDI value. 73% of business leaders surveyed by Ernst & Young are keen to invest in India in near future. 51% of FDI projects come from US, Germany, UK and France. 45% of investors cite low cost labor and inexpensive manufacturing as key attraction in India (Ernst & Young, 2012).

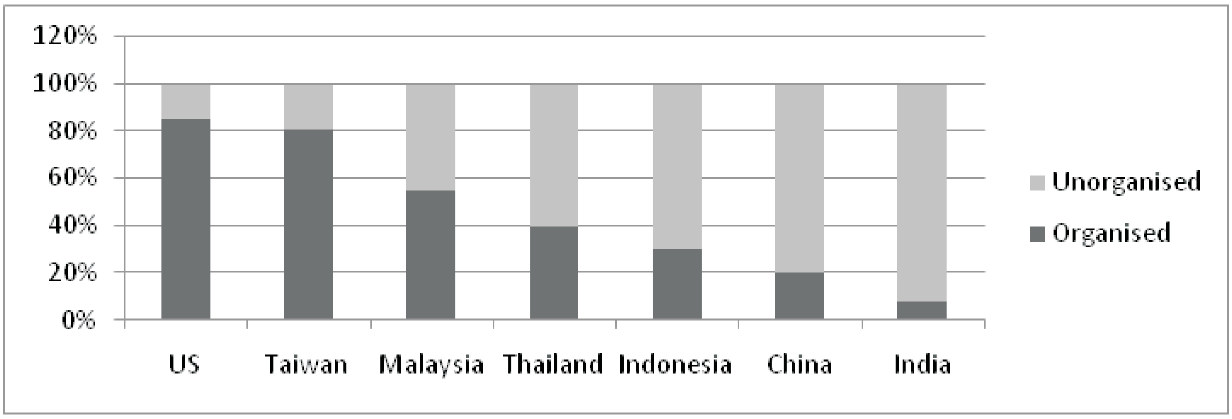
TABLE IV: TOP FIVE RECIPIENT COUNTRIES BY NUMBER OF PROJECTS

Rank	Country	No of Projects (2010)	No of Projects (2011)	Change 2011 via 2010	Value (US$ million) 2011
1	US	1,522	1707	12%	57,275
2	China	1,344	1409	5%	100,688
3	UK	941	1,014	8%	36,039
4	India	774	932	20%	58,261
5	Brazil	366	507	39%	63,018

Source: Ernst &Young, 2012

India is ranked fifth on the basis of FDI Restrictiveness Index 2012 (FRI) compiled by OECD. A score of 1 indicates a closed economy and 0 indicates openness. FRI for India in 2012 was 0.273 (it was 0.450 in 2006 and 0.297 in 2010) as against OECD average of 0.081. China is the most restrictive country as it is ranked number one with the score of 0.407 in 2012 indicating that it has more restriction than India (OECD, 2012).

CHART IV: PERCENTAGE OF ORGANIZED AND UN-ORGANIZED RETAIL GLOBALLY



Source: As per the data collected from:
http://www.naukrihub.com/india/retail/overview/evolution

SWOT ANALYSIS OF FDI IN INDIAN RETAIL SECTOR:

STRENGTHS:

1.Due to changes in income levels, lifestyles, taste & habits of consumers, there is an increased demand for superior quality and branded products in recent year. These are going to be the
2.Retail sector major contributors to GDP, contributes around 15% to GDP and expected to increase further.
3.Since the organized portion of retail sector is only 7.8% approximately in 2012 (as per India Retail Report 2013), therefore potential for future players.
4.The growing middle class is an important factor contributing to the growth of retail in India. According to FICCI 'By 2030, it is estimated that 91 million households will be 'middle class', up from 21 million today. Also by 2030, 570 million people are expected to live in cities, nearly twice the population of the United States today'.

WEAKNESSES:

1.According to the AT Kearney's study on global retailing trends found that India is least competitive as well as least saturated markets of the world.
2.The unorganized portion of retail sector is 92.2% approximately in 2012, (as per India Retail Report, 2013) which is very high as compared to US, which is only 15% approximately.
3.Absence of specific legislations controlling distribution trade and the existence of a plethora of laws such as the Essential commodities Act, the Cold Storage Order, the Weights & Measures Act, labor laws, the Shops Establishments Act and so on, leads to market distortion.
4.As the retail trade business in India is generally carried out by the family members (self-employment etc) therefore there is shortage of professionalism. Such people are not academically and professionally qualified. Unfortunately, there are very few courses specific to the retail sector and graduates/post graduates from other streams are recruited. Further, retail training opportunities such as niche courses for areas like merchandising, supply chain and so on are limited.
5.In most cities, it is difficult to find suitable properties in central locations for retail, primarily due to fragmented private holdings, infrequent auctioning of large government owned vacant lands and litigation disputes between owners.

OPPORTUNITIES:

1.It will help in creating transparency and accountability in the system. The domestic shops are operating as per mandi norms; they do not have transparency in their pricing, which means there is much room available for bargaining. Intermediaries and mandi system will be evicted, hence it will directly benefiting the farmers and producers, the prices of commodities will automatically be checked.
2.It will enable farmers to products. Small farmers will be the biggest beneficiary of this as they will be able to improve productivity and realize higher remuneration by selling directly to large organized players and shorten the chain from farm to consumers.
3.Big market along with better and latest technology and latest managerial skills will result in increasing retailer's efficiency. Government can also expect to receive an additional US$ 25-30 billion by way of taxes.
4.Lot of Employment opportunities (both direct and indirect) will increase in coming years. According to Associated Chambers of Commerce and Industry of India (ASSOCHAM), the retail sector will create 50,000 jobs in the next few years.
5.Big players are mostly very cost conscious and highly competitive retailers will try to avoid the wastages and losses due to leakage and wastage and it will be their endeavor to make quality products available at lowest prices, hence food will be available to
According to a study, 40% of the production does not reach the ultimate consumer because food often gets and in state-run warehouses.
6.The consumer will get better commodities at relatively cheaper price, so consumers will get value for their money or it will increase their purchasing power. They will have access to a large variety of international branded goods and quality of goods will be improved as well.
7.It will also contribute to large scale investments in the real estate sector, as new retail players needs roof to sell their products.

THREATS:

1.Practicing of predatory pricing by big players could increase. Big players can knock-out the competition as they can afford to lower prices in initial stages, become monopoly and then raise price later.
2.Heavy initial investment will be required by the domestic retailers to break even with other big players and compete with them, which is quite difficult for them as the lending rates are much higher in India.
3.Hard the people of India and large profit will go to the other countries. After making initial investment on basic infrastructure, the multinational retailers may remit the higher amount of profits earned in India to their own country.
4.Required workforce in manufacturing sector will decline due to more use of machines. Un-educated and un-trained employees will not get the jobs in these multinationals. Future of many middle men is also on risk.
5.The rapid development of retail sector will increase the need of real space, this could increase the property prices and rentals as well, and similarly it will increase the cost burden and squeeze the profit. Ultimately this will also borne by consumer in terms of higher prices for the products.

CONCLUSIONS AND SUGGESTIONS-:

The above analysis shows that FDI in retail effects on Indian economy. FDI in Single-Brand & Multi-Brand retail will give a boost to the organized retail sector, which will positively impact several stakeholders, including producers, workers, employees, consumers, the government, and hence, the overall economy. FDI will provide long term benefits and stakeholders should use it for their profit. We wish FDI in retail gives a boost to Indian economy and And Government big giants. After studying and working on both the present scenario and its implications one can derive a series of conclusions and suggestions which are as below:

a)For growth of Indian Economy, India needs to open up for businesses. India also needs to compete at global level with world class competition. Liberalizing will help to organize the Indian retail sector and will lead to overall growth and development of Indian Economy.
b)As India is a specific member of IMF and also general member of W.T.O, so we have to understand that

nothing wrong will be happen. There are many countries, which have invested and get benefited.
c)Government has to play an active role to help traditional retailers in competing successfully with the organized retail by modernizing themselves for global competition. Government must encourage co-operatives and associations of unorganized retailers for direct procurement from suppliers and farmers.
d)Keeping in mind the Indian specificities, Government should make a regulatory body for the commodity trade as just like cellular services.
e)Government should monitor the commodity prices closely to control the price inflation to strengthening Indian Economy. Government should also put restrictions on foreign retail company in importing goods and services because it will hit the domestic industries and services.
f)The Government must properly discuss the pros and cons of liberalizing FDI policy and have a law in place to control unfair competition. Then the FDI Bill will give definitely a positive impact on the retail industry and the country, by attracting more foreign investment.
g)Organized retail in India is managed by bothConsumer Affairs. While the Ministry of Commerce takes care of the retail policy, the Ministry of Consumer Affairs regulates retailing in terms of licenses and legislations. There is a need to govern retail operations through a single apex body. A single agency can take care of retail operations more effectively, especially with regard to addressing the grievances of
The development of the retail sector can take place at a
retailers. faster pace if a comprehensive legislation is enacted.

REFERENCES:

1.A.T. Kearney, 2012.
2.CSE India Portal, October 25, 2012. Impact of foreign direct investment (FDI) on Indian economy. Available at http://cseindiaportal.wordpress.com. Accessed on June 25, 2013.
3.Corporate Catalyst India, August 2012. A brief report on retail sector in India.
4.Deloitte, January 2013. Indian Retail Market: Opening more doors.
5.DIPP, 2013. Fact sheet on Foreign Direct Investment. Availale at http://dipp.nic.in/English/Publications/FDI_Statistics/2013/india_FDI_September2013.pdf.
6.Economic Survey, 2012-13. Government of India.
7.Ernst & Young's attractiveness survey, 2012. India, ready for the transition.
8.Naukrihub, 2013. Evolution of the Indian Retail Sector, available at http://www.naukrihub.com/india/retail/overview/evolution. Accessed on June 25, 2013.
9.High court of Delhi, India, 2004. Working Paper (C) Nos. 9568-70 of 2003 Subject: Foreign direct investment.
10.India Brand Equity Foundation, April 2013. available at http://www.ibef.org/india-at-a-glance/foreign-direct-investment.aspx. Accessed on June 15, 2013.
11.India Retail Report, 2013. Images Group.
12.International Monetary Fund, 1993. Balance of payments manual: Fifth edition (BPM5), Washington, D.C.
13.Jain, Prerna & Godha Anurodh, 2012. Prospects of multi brand FDI in India's retail sector: An analysis. Pacific Business Review International. Volume 5 Issue 3 (September 2012). Pg 24 -31.

14.Kumar Krish and Chatwal Arbinder, 2013. New opportunities & developments. Available at http://static.bdo.uk.com/assets/documents/2013/02/Retail_White_Paper.pdf. Accessed on June 20, 2013.
15.Mancheri Nabeel A., Dec 24, 2010. NIAS, India's FDI Policies: Paradigm Shift, available at http://www.eastasiaforum.org/2010/12/24/indias-fdi-policies-paradigm-shift/. Accessed on June 15, 2013.
16.Mishra Sanjay & Sharma Abhishek, 2012. Mr. Bhatia's Dilema – What Next? IMT Case Journal, Vol 3, No 1, July-Dec 2012.
17.Organisation for Economic Co-operation and Development (OECD), 1996. The Detailed Benchmark Definition of Foreign Direct Investment: Third Edition (BD3) (Paris,).
18.Organisation for Economic Co-operation and Development (OECD), 2012. FDI regulatory restrictiveness index.
19.Press note no(Series 2012), dated 20 September 2012, Issued by
20.Reuters, Sep 19, 2012, Evolution of India Retail Sector, available at http://in.reuters.com/article/2012/09/19/evolution-of-india-retail-sector-idINRTR3850D. Accessed on June 30, 2013.
21.Tuli Rajiv, Mishra Anjaneya,& Dawar Deepika, April 2013, World legal services Group. Available at http://www.worldlegale-services.com/images/articles/FDI% 20in%20Retail%20%20An% 20Overview.pdf. Accessed on June 20, 2013.
22.Zee News India, Dec 5, 2012, Indian Economy: A journey of 65 years: Foreign Direct Investment.