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Dr. Hem Chandra Jha
Associate Professor,
Department of Commerce,
GD College, Begusarai, Bihar,
India

Corresponding Author:
Dr. Hem Chandra Jha
Associate Professor,
Department of Commerce,
GD College, Begusarai, Bihar,
India

Impact of FDI on retail sector in India

Dr. Hem Chandra Jha

Abstract
The direct investment in buildings, machinery and equipment is in contrast with making a portfolio investment, which is considered an indirect investment. Big retail chains are actually going to hire a lot of people. So, in the short run, there will be a spurt in jobs. Eventually, there is likely to be a redistribution of jobs with some drying up (like that of middlemen) and some new ones sprouting up. Fears of small shopkeepers getting displaced are vastly exaggerated. When domestic majors were allowed to invest in retail, both supermarket chains and neighbourhood pop-and-mom stores coexisted. It's not going to be any different when FDI in retail is allowed.

Keywords: FDI, retail, pop-and-mom, stores and domestic

Introduction
Foreign direct investment (FDI) is defined as a long term investment by a foreign direct investor in an enterprise resident in an economy other than that in which the foreign direct investor is based. FDI can be simply defined as an investment made to acquire a lasting interest in an enterprise operating in a country other than that of investor. The direct investment in buildings, machinery and equipment is in contrast with making a portfolio investment, which is considered an indirect investment. As such, it may take many forms, such as a direct acquisition of a foreign firm, construction of a facility, or investment in a joint venture or strategic alliance with a local firm with attendant input of technology, licensing of intellectual property, in the past decade, FDI has come to play a major role in the internationalization of business. Reacting to changes in technology, growing liberalization of the national regulatory framework governing investment in enterprises, and changes in capital markets profound changes have occurred in the size, scope and methods of FDI. In order to qualify, as FDI the investment must afford the parent enterprise control over its foreign affiliate. A direct investment relationship can exist between a numbers of affiliated enterprises whether the linkage involves a single chain or a number of chains. It can extend to a direct investment enterprise's subsidiaries, sub-subsidiaries and associates. Once the direct investment relationship is established, all subsequent financial flows between the related entities are recorded as direct investment transactions.

Importance and barriers to FDI in India
India disallowed overseas corporate bodies (OCB) to invest in India. India imposes cap on equity holding by foreign investors in various sectors, current FDI in aviation and insurance sectors is limited to a maximum of 49%. Starting from a baseline of less than $1 billion in 1990, a 2012 UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, US and UK were among the leading sources of FDI. Based on UNCTAD data FDI flows were $10.4 billion, a drop of 43% from the first half of the last year. In first half of the 2015 India attracted FDI of $ 31 billion compared to $ 28 billion and $ 27 billion of China and the US respectively.

Role of government of India in FDI
The Government of India has amended FDI policy to increase FDI inflow. In 2014, the government increased foreign investment upper limit from 26% to 49% in insurance sector. It also launched Make in India initiative in September 2014 under which FDI policy for

25 sectors was liberalised further. As of April 2015, FDI inflow in India increased by 48% since the launch of "Make in India" initiative. India was ranking 15th in the world in 2013 in terms of FDI inflow; it rose up to 9th position in 2014, while in 2015 India became top destination for foreign direct investment.

Indian retail industry

Retailing is the last link in the process of Supply Chain Management. Retailer is the person who is in direct contact with the customers because of this it gains its importance for the manufacturer. The word 'retail' is derived from the French word 'retailer', which means 'to cut a piece of' or 'to break bulk'. The retailer unlike wholesaler did not buy products for further resale but to provide them to the end consumers. A number of activities are performed by retailers such as assorting, sorting, merchandizing, storing, providing credit facility, packing etc. The sector is facing big transformation from mom & pop stores, local kiryana store to big malls and hypermarkets. The customer is demanding products as never before. They possess good knowledge about pricing strategies, quality of the product and its usage. The consumer is now attracted towards big glitzy malls, eye catching interiors, one stop shopping experience. The concept of e-retailing has resulted in one touch shopping real for customers. The customers are now demanding products from a place which is convenient to them. Therefore, it is becoming difficult for retailers to find loyal customers for themselves. The customers will be attracted towards those stores which tend to offer good quality products at attractive prices with convenience facility, in an attractive manner.

The presence of retail sector in India can be felt way back from the time of melas and haats, these were meant to cater the need of local people living nearby. The emergence of kiryana stores and mom & pop stores were observed after sometime. The Government also started supporting the retail sector and as a result a number of indigenous retail stores came into existence. With the passage of time, economy started becoming more open and a changed face of retail sector came into existence. The first few companies which came into existence to set up retail chains were from textile sector (S. Kumar's, Raymond etc.).

The Retail Industry can be broadly categorized as: Organized and Unorganized Retailing.

Organized retailing: Represents licensed retailers who got them registered for income tax, sales tax etc.

Unorganized retailing: Represents retailers who are not registered for income tax, sales tax etc. and do not possess license for their workings, for example: street hawkers. Today India is fifth largest in the world in terms of retailing. The overall retail is projected to double to $1 trillion by 2020 from $600 billion in 2015, where modern retail is expected to grow 3 time to $180 billion by 2020 from $60 billion in 2015 as per BCG report on "Retail 2020.

The retail sector is growing at a very faster pace and the key factors driving the growth are:

- Increasing no. of young population
- Double family income
- Increasing working women population
- Techno-savvy youngsters
- Nuclear families
- Rapid urbanization
- Customer liking towards modern shopping environment
- New retail formats with differentiated strategies
- Positive regulatory environment: promotion of ease of doing business concept
- Through Make in India

As a result of ever changing demand of customers, liberalization of FDI policy, favourable responses of customers towards innovative products, the retail sector is able to attract big players to play in the field. Retailing India retail market US$ billion in is one of the pillars of its economy and accounts for about 22 percent of its GDP. The Indian is estimated to be 500 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. As of 2013, India's retailing industry was essentially owner manned small shops. 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 (3.3% of Indian population).

Until 2011, Indian central government denied foreign direct investment multi-brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51% ownership and a bureaucratic process. In November 2011, India's central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for retail innovation and competition with multi-brand retailers such as Walmart, Carrefour Tesco, as well single brand majors such as IKEA, Nike, and Apple. The announcement sparked intense activism, both in opposition and in support of the reforms. In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus.

In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate 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.

In June 2012, IKEA Fitch Group announced it had applied for permission to invest $1.9 billion in India and set up 25 retail stores. An analyst from stated that the 30 percent requirement was likely to significantly delay if not prevent most single brand majors from Europe, USA and Japan from opening stores and creating associated jobs in India On 14 September 2012, the government of India announced the opening of FDI in multi-brand retail, subject to approvals by individual states. This decision was welcomed by economists and the markets, but caused protests and an upheaval in India's central government's political coalition structure. 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.

On 7 December 2012, the Federal Government of India allowed 51% FDI in multi-brand retail in India. The government managed to get the approval of multi-brand retail in the parliament despite heavy uproar from the opposition (the NDA and leftist parties), some states will allow foreign supermarkets like Walmart, Tesco Carrefour and to open while other states will not.

Indian central government denied foreign direct investment (FDI) in multi-brand Indian retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets, to sell multiple products from different brands directly to Indian consumers. The opening of retail industry to global competition is expected to spur a retail rush to India. It has the potential to transform not only the retailing landscape but also the nation's ailing infrastructure. A Wall Street Journal article claims that fresh investments in Indian organised retail will generate 10 million new jobs between 2012–2014, and about five to six million of them in logistics alone; even though the retail market is being opened to just 53 cities out of about 8000 towns and cities in India.

Literature review

Babu (2012) [1] used SWOT analysis to analyze retail sector in India. Strengths of the sector such as young working population with median age of 24 years, nuclear families, increased disposable income, increasing working women, emerging opportunities in service sector, low share of organized retail were discussed along with weaknesses of the sector such as small size outlets, high rentals of space, low volume of Indian retailing, proper merchandize mix is not settle. The study highlighted the opportunities of the sector such as demonstration effect, an attractive retail destination, untapped retail market.

And threats like underdeveloped SCM, difficult to target all sections of the society, lack of uniform tax system, heavy initial investments, parking problem in urban areas. The study highlighted that India as a rising star is able to attract foreign players. Allowing healthy FDI in retail sector will lead to overall development of the economy and will further help Indian economy to integrate with the world's economy.

Chandu (2012) [2] tried to explore the perceptions of small retailers in context of FDI in Indian retailing. For the purpose of the study the responses of 80 unorganized retailers' in the tier-II cities of Kakinada and Rajamundry were collected with the help of structured questionnaire. The sample comprises of small single-outlet retailers with average turnover of 10-20 lakhs. On the basis of 12 statements, the researcher observed that majority of small retailers don't consider big retailers as their competitors. The small retailers possess their unique style of attracting customers, there exists possibility to be effected by big stores in the short run but in the long run they would be capable of tackling them effectively. The small retailers further oppose FDI in retailing, may be being unaware about the positive and negative outcomes of FDI policy change. The researcher concluded that a well drafted FDI policy in retailing must be framed taking care about its impact on all the stakeholders.

Grover & Gupta (2014) [3] tried to find out the explanatory variables of FDI inflows in the country with the help of simple and multiple regression method. Two models were developed by the researchers to study the impact of FDI on economic growth. Model 1: FDI model, which depicts the factor influencing FDI in India. Model 2: Economic growth model, which depicts the contribution of FDI to economic growth. Econometric techniques *viz*. coefficient of determination, Std. error, F-ratio, t-statistics, D-W statistics are used. The study revealed that trade GDP, reserves GDP and financial position variables shows a positive relation with FDI while R&D GDP and exchange rate GDP variables shows negative relation with FDI. The study concluded that FDI is a significant factor to influence the level of economic growth in India.

Krishnan & Bhandare (2013) [6] pointed out that with the changing trends of retailing in India, traditional and new formats will co-exist. There exists a number of favourable factors like increasing population, rapid urbanization, expected increase in India's growth, growing middle class, increasing number of blue collar and white collar workers, changing life style, expected increase in FDI flow, progressive policies, economic and political stability, growth of nuclear families, increasing working women population for growth of organized retail in India. The researchers also highlighted various advantages and disadvantages of FDI in retailing.

Methodology

The information is collected through secondary sources. That information was utilized for evaluation and based on that interpretations were made. The secondary data was collected from journals, books, newspapers and websites etc.

Objective of the study

The major objective of the study was to analyse the effect of FDI in Indian retail industry.

Result and Discussion

Limits for FDI in different sectors

26% FDI is permitted in

- Defence (In July 2013, there has been no change in FDI limit but higher investment may be considered in state of the art technology production by CCS)
- Newspaper and media
- Pension sector (allowed in October 2012 as per cabinet decision)
- Courier Services (through automatic route)
- Tea Plantation (up to 49% through automatic route; 49-100% through FIPB route)

49% FDI is permitted in

Banking, Cable network, DTH, Infrastructure investment, Telecom, Insurance, Petroleum Refining (49% allowed under automatic route), Power Exchanges (49% allowed under automatic route), Stock Exchanges, Depositories allowed under automatic route up to 49%. 49% (FDI & FII) in power exchanges registered under the Central Electricity Regulatory Commission (Power Market) Regulations 2010 subject to an FDI limit of 26 per cent and an FII limit of 23 per cent of the paid-up capital is now permissible. [Permitted in September 2012].

51% is permitted in

Multi-Brand Retail (Since September 2012), Petro-pipelines

74% FDI is permitted in

Atomic minerals, Science Magazines/Journals, Petro marketing, Coal and Lignite mines Credit information companies (raised from 49% to 74% in July, 2013)

100% FDI is permitted in

Single Brand Retail (100% FDI allowed in single brand retail; 49% through automatic route; 49-100% through FIPB), Advertisement, Airports, Cold-storage, BPO/Call centres, E-commerce, Energy (except atomic), export trading house, Films, Hotel, tourism, Metro train, Mines (gold, silver), Petroleum, exploration, Pharmaceuticals, Pollution control, Postal service, Roads, highways, ports. Township Wholesale trading, Telecom (raised from 74% to 100% in July, 2013 by GoI), Asset Reconstruction Companies (increased from 74% to 100 in July, 2013, Out of this up to 49% will be under automatic route)

FDI in retail sector

Single brand: Single brand means a foreign company would be allowed to sell goods sold internationally under a "single brand", like Reebok, Nokia and Adidas. FDI in "Single brand" retail implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand and not the Reebok brand, for which separate permission is required. If granted permission, Adidas could sell products under the Reebok brand in separate outlets. The Government of India has allowed 100 per cent in Single-Brand Retail Trading (SBRT).

Multi brand: FDI in Multi Brand retail means a retail store with a foreign investment who 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. The approval for single and multi-brand includes a set of riders for the foreign investors, aimed at ensuring that the foreign investment makes a genuine contribution to the development of Indian infrastructure and logistics, at the same time facilitating integration of small retailers into the upgraded value chain.

FDI in retail and its effect on various stakeholders

FDI is one of the major sources of investment for a country like India, which would assists in improving country's growth rate, create employment opportunities, sharing of technical know-how, development of infrastructure and R&D in the host country. The FDI in retail sector will also help in,

- Increasing foreign exchange reserves
- Reducing the balance of trade deficit
- Developing agricultural sector etc.

Effects of FDI in retail sector

Loss of jobs: Retail sector offers huge growth potential and is the second largest employer in India. Any changes by bringing major foreign retailers will not only result in unemployment on the front end retail but also make the middlemen unemployed who have been working in this industry.

Financial instability: Once the overseas investors are established in Indian retail sector, they may transfer funds and profits earned to their home country. This might lead to financial instability.

Effect on traditional mom and pop stores

Traditional retailing has been established in India for many centuries, and is characterized by small, family-owned operations. Because of this, such businesses are usually very low-margin, are owner-operated, and have mostly negligible real estate and labour costs. Such small shops develop strong networks with local neighbourhoods. The informal system of credit adds to their attractiveness. Moreover, low labour costs also allow shops to employ delivery boys, such that consumers may order their grocery list directly on the phone. These advantages are significant, though hard to quantify. In contrast, players in the organized sector have to cover big fixed costs, and yet have to keep prices low enough to be able to compete with the traditional sector. Getting customers to switch their purchasing away from small neighbourhood shops and towards large-scale retailers may be a major challenge. The experience of large Indian retailers such as Big Bazaar shows that it is indeed possible. The oppositions, on the other hand, believe that local kirana shops will not be affected. The kirana stores operate in a different environment catering to a certain set of customers and they will continue to find new ways to retain them.

Conclusion

Big retail chains are actually going to hire a lot of people. So, in the short run, there will be a spurt in jobs. Eventually, there is likely to be a redistribution of jobs with some drying up (like that of middlemen) and some new ones sprouting up. Fears of small shopkeepers getting displaced are vastly exaggerated. When domestic majors were allowed to invest in retail, both supermarket chains and neighbourhood pop-and-mom stores coexisted. It's not going to be any different when FDI in retail is allowed. The local kirana. Why would anyone shun them? If anything, the entry of retail big boys is likely to hot up competition, giving consumers a better deal, both in prices and choices. Mega retail chains need to keep price points low and attractive – that is the USP of their business. The argument that farmers will suffer once global retail has developed a virtual monopoly is also weak. With new concepts like e-tailing, customized product, a big shift is seen in the response of the customers. Positive as well as negative points are attached to the liberalized FDI policy in retail sector. FDI in no doubt is likely to bring improvement in state of Indian economy, but the stake of small retailers must be taken care of while formulating and implementing the policy. With growing awareness and attitudinal shift of customers, it is suggested that it is time for small retailers to spend time to revive the strategies required to attract customers towards their retail stores.

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