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IMPACT OF FOREIGN DIRECT INVESTMENT ON INDIAN ECONOMY WITH SPECIAL REFERENCE TO INDIAN RETAIL MARKET

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ABSTRACT

The Indian retail market is one of the fastest growing sectors in the current scenario, and considering its huge customer base and the rising income of the middle and upper-middle class, it is having very high growth potential for the future as well. Indian retail industry is one of the sunrise sectors with huge growth potential. As a matter of fact, currently the Indian retail market is approximately valued over $ 500 Billion, and is rising. The potential of the organized retailing can be viewed in the fact that its contribution is around 6% only and the rest is held by the unorganized retail. Since the last decade the respective Indian governments are trying to tap all the sources to fuel the growth engine of the country, and FDI is one of them, and the relevant steps are also taken in the same direction, like the allowance of FDI in the multi brand retailing sector. This present study tries to identify the convincing factors of FDI in retail and the role of the same in the growth of the Indian economy.

KEY WORDS: Economy, FDI, Growth, Indian Retail Market .

INTRODUCTION

Considering the demographic and geographical distribution of the country, we can see that even in the age of smart phones and KFC's the Indian customer is more inclined towards the unorganized retailers for a number of items related to their daily necessities, this is because of the reason that more than 60% of the population resides in the rural and semi-urban areas. But against all odd the organized retail sector is growing in the country like never before, thanks to the policies of respective governments.**A.T. Kearney (2011)**

As a matter of fact, the Indian retail sector can be clearly divided into two classes, one is the organized retail sector and other is the unorganized retail sector. Where in the unorganized retailers are in the form of locally owned, Mom and Pop stores single owner general stores, corner shops, convenience stores, hand cart and freelancer vendors, etc. **Kulkarni et al (2012)**Others are the organized retailers who are involvedin the trading activities undertaken by licensed retailers, i.e., those who are liable to different types of taxations etc., counted under the umbrella of the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.

In the last few years, the Indian retail sector has grown multi-folds, this is the result of successfully established models of organized retail in all of the Asian markets such as China, Bangladesh, Nepal, Pakistan had carved the way for the establishment of organized retail in India as well. In continuation of the same the domestic retail giants, like the Future Group, Aditya Birla retail who have set up exclusive outlets across India. The large retailers have experienced substantial growth around the world. Attracted by the India's growing retail boom, many multinational companies also started to enter India's retail market. According to the Investment Commission of India, the retail sector is expected to grow almost three times its current levels to $700 billion by 2018. **Soundararaj, J (2012)**

FDI in the retail sector can return in the expansion of the markets by the way of reduction in transaction cost, transformation costs, etc. of business through adoption of advanced supply chain and benefit consumers, and suppliers. Opposition to liberalizing FDI in this sector raises concerns about employment losses, promotion of unhealthy competition among organized domestic retailers resulting in exit of small domestic retailers from the market and distortion of urban cultural development.

According to the current policy of 100percentFDI in wholesale cash-and-carry trading is permitted. In single-brand retailing, 100percentFDI is allowed while it is prohibited to 51percentin multi-brand retailing. The question arises whether toincrease FDI in multi-brand retail up to 100percentwillgenerate problems or create opportunities.[4] There are noproper answers and sufficient suggestions have beenexpressed in favour and against of FDI. In this Paper, anattempt is made to discuss the policy frameworks for FDIin Indian retail sector as well as to know the future trendsassociated with FDI in retail segment.**Singh. Et al (2012)**

REVIEW OF LITERATURE

1. **Guruswamy, M. et al., (2007)**: India retail industry can be segregated into organized and unorganized sectors. consist of the traditional formats of low-cost retailing like local kirana shops owner, general stores, paan/beedi shops, hand cart and pavement vendors, etc. distorted real-estate market, poor infrastructure and inefficient upstream processes, lack of modern technology, inadequate funding and absence of skilled manpower are the characteristics of Unorganized retailing.
2. **Soundararajan, (2009)**: There are many variables of traditional outlets whichinfluence the choice of retail store such as nearness toresidence, easy availability of credit, convenient timings,possibility of bargain, etc. The benefit of the\ modernization of retail stores goes to the consumer as theyget the greatest and ample choice, discounted prices. Themain objective of the retailer to retain their customers andtherefore strategies are formulated after having in depthstudy of buying behavior of the customer.
3. **Joseph and Soundararajan (2009):** There are many variables of traditional outlets which influence the choice of retail store such as nearness to residence, easy availability of credit, convenient timings, possibility of bargain, etc.
4. **Singh et al, (2012):** After liberalization, organized retail has grown significantly because of the growing purchasing power of Indian middleclass. As a result, Indian government opened its doors for FDI in single brand & multi-brand retailing. With 30emerging markets India has been ranked third most promising nation for retail investment with domestic companies like the Future Group, Tata's West side,Reliance Fresh, Raheja Group and Bharti Retail competingfor market share.
5. **Mehta, (2012):** Given the Indian scenario, the decision of government to open its retail sector to FDI cannot be regarded as completely wrong, as FDI will in future come forwardwith its benefits. Concerns regarding anti-competitive practices seem unfounded because given Competition Law in place; Competition Commission of India can deal with them.

6. **Rupali Gupta (2012):** Indicates prospective changes in FDI policy framework and analyses its effect and impact on diverse group of stakeholders taking into consideration of chosen real life cases.
7. **Bora Bedanta and Adhikary Anindita, Nov, (2013)**, point out that in spite of recent development in retailing and its contribution towards the economy, the sector yet continues to be one of the least evolved industries in the country. They further presume that with a higher growth rate in GDP, enlarged consumerism and liberalization of trading sector, India could be portrayed as an attractive destination for foreign investment in retail trade.
8. **Sharma Ambika, (2014):** Substantiates that India is ranked as a most striking retail destination amongst 30 emerging markets by Global Retail Development Index and the country's retail trade is anticipated to grow almost three times its current level to $ 660 billion by the year 2015.

OBJECTIVE OF THE STUDY

- To discuss the policy framework for FDIin Indian retail sector
- To investigate respective issues and challenges related to FDI in the Indian retail market.
- To analyse the effects of FDI on Indian Economy

RESEARCH METHODOLOGY

Keeping in view the topic of this study, exploratory research method is used, where the secondary data is taken as the base for this study. This includes the various reports published by the different liable agencies, statistical data published in various government and non-government publications.

In this the researchers had tried to find the correlation between the FDI in the country and Economic development, here the FDI is taken in real terms and the growth in GDP is regarded as the parameter of the economic development.

HYPOTHESIS 1

H_1: There is a significant impact of FDI on Indian retail market.

H_0: There is no significant impact of FDI on Indian retail market.

MEANING OF FDI

According to International Monetary Fund, FDI is defined as “investment that is made to acquire alasting interest in an enterprise operating in an economy other than that of the investor. The investor’s purpose is to have effective voice in the management of the enterprise”. FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of theeconomy. The FDI Policy is governed bythe Government of India and with the provision of Foreign Exchange Management Act (FEMA) 1999. It usually involves participation in management, joint venture, transfer of technology and expertise. FDI can be used as one measure of growing economic globalization.

EVOLUTION OF FDI IN INDIAN ORGANIZED RETAILING

By the virtue of the LPG in 1991, and India becoming a member of WTO, the organized retail market was unlocked from the year 1995, for the international investors. There were manyarguments regarding opening of this sector due to apprehension of job losses, procurement from internationalmarket, competition and loss of entrepreneurialopportunities. The phase wise development of FDI in the Indian organized retailing can be seen in the diagram given below:

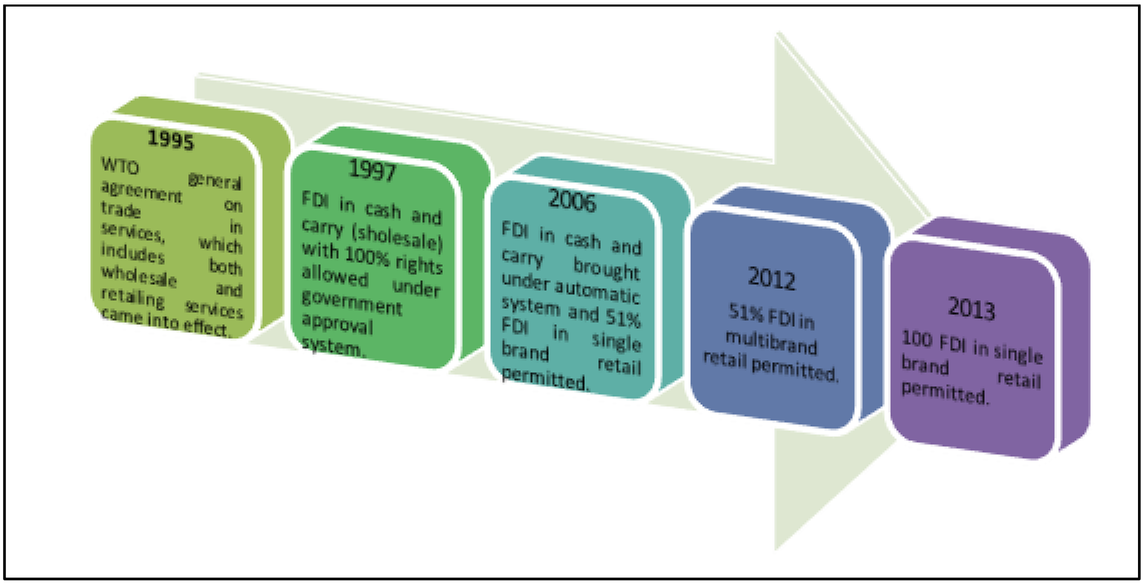

Fig. 1: Evolution of FDI in Indian Organized retail Sector

Data Analysis

Table 1: Country–wise FDI Inflows - Top 10 Countries

				Amount of FDI in: Rupees in cr.			
Ranks	**Name of the Country**	**2010 and 2011**	**2011 and 2012**	**2012 and 2013**	**2013 and 2014**	**2014 and 2015**	**% to total inflows**
1	**MAURITIUS**	31855	46710	51654	29360	31360	38%
2	**SINGAPORE**	7730	24712	12594	35625	22698	10%
3	**U.K.**	3434	45229	5797	20426	5971	9%
4	**JAPAN**	7,063	14089	12243	10550	7789	8%
5	**U.S.A.**	5353	5347	3033	13920	14690	6%
6	**NETHERLANDS**	5501	6698	10054	4807	8248	5%
7	**CYPRUS**	4171	7722	2658	3401	2837	4%
8	**GERMANY**	908	7452	4684	6093	3725	3%
9	**FRANCE**	3349	3110	3487	1842	3229	2%
10	**U.A.E.**	1569	1728	987	2084	1116	1%
	Total FDI Inflows from all countries	97320	165146	121907	147518	114047	86%

Source: Government of India (GOI) (2015). FDI Statistics, Ministry of Commerce & Industry, Department of Industrial Policy and Promotion

The above table shows the details of the country wise inflow of FDI in India from top ten investing countries. As can be seen from the table that from the year 2010 to 2015 the maximum amount of FDI inflow is from Mauritius and the least amount of FDI is from UAE, as a matter of fact there are a number of fluctuations in the inflow of FDI from different countries. It is clearly visible from the data that in the year 2012 and 2013 there is maximum amount fluctuation.

Table 2: Sector–wise FDI Inflows - Top 10 Sectors (From 2010-2015) in Rs. Cr.

Ranks	Sector	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	% age to total inflows
1	Service Sector	15054	24656	26306	13,294	11,189	18%
2	Construction Development: Townships, Housing, Built-Up, Infrastructure	7590	15236	7248	7508	4240	10%
3	TELECOMMUNICATIONS (Radio Paging, Cellular Mobile, Basic Telephone Services)	7542	9012	1654	7987	14726	7%
4	Computer Software & Hardware	3551	3804	2656	6896	5241	6%
5	Drugs & Pharmaceuticals	961	14605	6011	7191	6903	5%
6	Chemicals (Other Than Fertilizers)	10612	18422	1596	9027	9379	4%
7	Automobile Industry	5864	4347	8384	4738	2830	4%
8	Power	5796	7678	2923	6519	3317	4%
9	Metallurgical Industries	5023	8348	7878	3436	1323	4%
10	Hotel & Tourism	1405	4754	17777	2949	3288	3%

Source: Government of India (GOI) (2015). FDI Statistics, Ministry of Commerce & Industry, Department of Industrial Policy and Promotion

The above table 2 explains the sector wise inflow of FDI from 2010 to 2015. The maximum amount of FDI is in the service sector for the years 2010 to 2013 but in the year 2014 and 2015 it has decreased to a significant level. Except for the chemical industry, in all other sectors the FDI has decreased to a significant level. This decrease is experienced because of the reason that India, as an economy has become self-sufficient in the areas like software, power and pharmaceutical industries. Along with the service sector, there is an increase experienced in the hotel and tourism industry as well.

Table 3: Role of FDI in Economic Development of the Country

Yearly flow of FDI and GDP_{FC}

Year	FDI Inflow (in Rs. crore)	GDP at factor Cost
1991-1992	408	613528
1992-1993	1094	703723
1993-1994	2018	817961
1994-1995	4312	955386
1995-1996	6916	1118586
1996-1997	9654	1301788
1997-1998	13548	1447613
1998-1999	12343	1668739
1999-2000	10311	1847273
2000-2001	12645	1991982
2001-2002	19361	2167745
2002-2003	14932	2338200
2003-2004	12117	2622216
2004-2005	17138	2971464
2005-2006	24613	3390503
2006-2007	70630	3953276
2007-2008	98664	4582086
2008-2009	123025	5303566
2009-2010	123377	6108903
2010-2011	88520	7266967
2011-2012	165146	8353495
2012-2013	121907	9461979
2013-2014	216276	9388876
2014-2015	265746	10472807

As part of the economic liberalization process set in place by the Industrial Policy of 1991, the Indian government has opened the retail sector to FDI slowly through a series of steps:

- 1995: World Trade Organization's General Agreement on Trade in Services, which includes both wholesale and retailing services, came into effect.
- 1997: FDI in cash and carry (wholesale) with 100% rights allowed under the government approval route.
- 2006: FDI in cash and carry (wholesale) brought under the automatic route. Up to 51 percent investment in a single-brand retail outlet permitted.
- 2011: 100% FDI in single brand retail permitted.
- The Indian government removed the 51 percent cap on FDI into single-brand retail outlets in December 2011,and opened the market fully to foreign investors by permitting 100 percent foreign investment in this area. Government has also made

some, albeit limited, progress in allowing multi-brand retailing, which has so far been prohibited in India. At present, this is restricted to 49 percent foreign equity participation.

Now the above mentioned details states that the amount of FDI in India has raised from the year 1997, hence in order to test the hypothesis the data of FDI and the respective growth in GDP is analyzed from the year 1997, using the ‘t’ test statistic.

t-Test: Two-Sample Assuming Equal Variances		
	Variable 1	*Variable 2*
Mean	59779.20833	3785360.917
Variance	5612730240	9.70227E+12
Observations	24	24
Pooled Variance	4.85394E+12	
Hypothesized Mean Difference	0	
Df	46	
t Stat	5.857837995	
P(T<=t) one-tail	2.36384E-07	
t Critical one-tail	1.678660414	
P(T<=t) two-tail	4.72768E-07	
t Critical two-tail	2.012895567	

As can be seen from the above table that the value of ‘t’ stat is 5.878 which is more than the hypothesized value of 2.3638, so the value of ‘t’ test states that the variable between the two samples is less and it can be inferred that the growth in GDP is proportionately related to the FDI in different sectors.

Here the researcher has assumed that after the year 1997 the various steps taken by the government, so as to improve the inbound of FDI in India and value of the same is being considered for the retail sector as well. Now it can be inferred that the FDI is having significant impact on Indian Retail Market.

RESULT OF HYPOTHESIS TESTING

Based on the above discussion, it can be inferred that the null hypothesis **‘There is a significant impact of FDI on Indian retail Market’** can be accepted and the alternate hypothesis can be rejected.

CORRELATION ANALYSIS BETWEEN FDI AND GDP

More over in order to be sure about the premise of the hypothesis the researcher has done the correlation analysis between the two components of FDI and GDP. The result of the analysis is as follows:

FDI (X)	GDP (y)	dx=(x-1434701)	dy= (y-90848662)	dx^2	dy^2	dx*dy
408	613528	-1434293	-90235134	2.0572E+12	8.14238E+15	1.29424E+14
1094	703723	-1433607	-90144939	2.05523E+12	8.12611E+15	1.29232E+14
2018	817961	-1432683	-90030701	2.05258E+12	8.10553E+15	1.28985E+14
4312	955386	-1430389	-89893276	2.04601E+12	8.0808E+15	1.28582E+14
6916	1118586	-1427785	-89730076	2.03857E+12	8.05149E+15	1.28115E+14
9654	1301788	-1425047	-89546874	2.03076E+12	8.01864E+15	1.27609E+14
13548	1447613	-1421153	-89401049	2.01968E+12	7.99255E+15	1.27053E+14
12343	1668739	-1422358	-89179923	2.0231E+12	7.95306E+15	1.26846E+14
10311	1847273	-1424390	-89001389	2.02889E+12	7.92125E+15	1.26773E+14
12645	1991982	-1422056	-88856680	2.02224E+12	7.89551E+15	1.26359E+14
19361	2167745	-1415340	-88680917	2.00319E+12	7.86431E+15	1.25514E+14
14932	2338200	-1419769	-88510462	2.01574E+12	7.8341E+15	1.25664E+14
12117	2622216	-1422584	-88226446	2.02375E+12	7.78391E+15	1.2551E+14
17138	2971464	-1417563	-87877198	2.00948E+12	7.7224E+15	1.24571E+14
24613	3390503	-1410088	-87458159	1.98835E+12	7.64893E+15	1.23324E+14
70630	3953276	-1364071	-86895386	1.86069E+12	7.55081E+15	1.18531E+14
98664	4582086	-1336037	-86266576	1.78499E+12	7.44192E+15	1.15255E+14
123025	5303566	-1311676	-85545096	1.72049E+12	7.31796E+15	1.12207E+14
123377	6108903	-1311324	-84739759	1.71957E+12	7.18083E+15	1.11121E+14
88520	7266967	-1346181	-83581695	1.8122E+12	6.9859E+15	1.12516E+14
165146	8353495	-1269555	-82495167	1.61177E+12	6.80545E+15	1.04732E+14
121907	9461979	-1312794	-81386683	1.72343E+12	6.62379E+15	1.06844E+14
216276	9388876	-1218425	-81459786	1.48456E+12	6.6357E+15	9.92526E+13
265746	10472807	-1168955	-80375855	1.36646E+12	6.46028E+15	9.39558E+13
1434701	90848662	-32998123	-2089519226	4.54989E+13	1.82144E+17	2.87798E+15

Mean X: **59779.21**

Mean Y: **3785361**

$$r = \frac{n \sum d_x d_y - (\sum d_x)(\sum d_y)}{\sqrt{n \sum {d_x}^2 - (\sum d_x)^2}\sqrt{n \sum {d_y}^2 - (\sum d_y)^2}}$$

Correlation		
	Column 1	*Column 2*
Column 1	1	
Column 2	0.94111198	

r=.9411

RESULTS

considering the above Table: 3, w.r.t. correlation analysis between the FDI inflow and GDP at factor cost, yearly starting from, 1991 to 2015, 1991 is the year of the announcement of last industrial policy, *amendments of the 1990 industrial policy*, and the introduction of LPG (*Liberalization, Privatization and Globalization*). For the given 24 years it was found that the correlation coefficient is approximately 0.9**,** which states that the FDI and the GDP at factor cost are positively correlated at a high degree, and in both the variables are increasing in the same direction.

FDIis considered to be the life blood and an important vehicle of for economic development asfar as the developing nations are concerned. The important effect of FDI is its contribution to the growth of the economy. FDI has an important impact on country's trade balance, increasing labour standards and skills, transfer of technology and innovative ideas, skills and the general business climate. FDI also provides opportunity for technological transfer and up gradation, access to global managerial skills and practices, optimal utilization of human capabilities and natural resources, making industry internationally competitive, opening up export markets, access to international quality goods and services and augmenting employment opportunities.

CONCLUSION

FDI plays an important role in the long-term development of a country not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities. India emerges as the fifth largest recipient of foreign direct investment across the globe and second largest among all other developing countries (World Investment Report 2010). The huge market size, availability of highly skilled human resources, sound economic policy, abundant and diversified natural resources all these factors enable India to attract FDI. Further, it was found that even though there has been increased flow of FDI into the country during the post liberalization period, the global share of FDI in India is very less when it is compared to other developing countries. Lack of proper infrastructure, instable government and political environment, high corporate tax rates and limited export processing zones are considered to be the major problems for low FDI into the country. To overcome this situation, the Government should revise the sectoral cap and bring more sectors under the automatic route. Further, India should sign the agreement of Double

Taxation treaties with other countries in order to increase bilateral trade. Therefore, there is an urgent need to adopt innovative policies and good corporate governance practices on par with international standards, by the Government of India, to attract more and more foreign capital in various sectors of the economy to make India a developed economy.

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