International Research Journal of Management and Commerce
ISSN: (2348-9766)
Impact Factor- 5.564, Volume 4, Issue 11, November 2017
Website- www.aarf.asia, **Email** : editor@aarf.asia , editoraarf@gmail.com

INTRODUCTION TO DIRECT FOREIGN INVESTMENT IN INDIA IN RETAIL SECTOR

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ABSTRACT

Foreign direct investment plays a fundamental role in the development of the Indian economy. It is an integral part of the global environmental system. The advantages of FDI can be enjoyed to the fullest extent through various national policies and international investment architecture. Both factors contribute enormously to the maximum inflow of FDI into India, which stimulates the country's economic development. India is the second most important FDI destination in the world in 2010-12 after China. In November 2011, the central government of India announced retail reforms for both multi-brand stores and single-brand stores. Market reforms paved the way for retail innovation and competition with FDI from a single brand of multi-brand retailers. This study reviews the literature on the growth of FDI in India. IED in single brand and multiple brand, etc,.

This study highlights the overall growth and impact of FDI in the retail sector in India, reasons for investing in the retail industry in India. The Indian retail industry is one of the fastest growing in the world. The Retail industry in India is expected to grow to $ 111.25 billion in 2019 from $70.46 billion in 2016.

It is known that capital inflows into developing countries, such as India, have increased considerably. Therefore, become a driving and dynamic factor in the accelerated growth of the economy. The expansion of FDI in India has followed rapid economic growth and increased openness to the rest of the world. The main objective of this study is to review why the Indian retail sector has been a preferred destination for FDI and the impact of FDI on the Indian economy. The secondary objectives of the study are to review the main reasons to invest in India to analyze the current retail scenario.

Keywords: FDI, innovation and retail competition, current retail scenario, accelerated growth of the economy.

Introduction

Retail trade in India is one of the pillars of its economy and accounts for approximately 10 percent of its GDP. It is estimated that the Indian retail market is USD600 billion and one of the five largest retail markets in the world by economic value. India is one of the fastest growing 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. FDI in retail began after India became a member of the World Trade Organization (WTO) in 1995. And in 1995, the WTO General Agreement on Trade in Services came into force, which includes wholesale and retail services. Retailers have no specific restrictions had been imposed on the entry of foreign retailers into the Indian market until 1996, with a few foreign players being granted permission to retail at this former regime.

Definition of Retail:

In 2004, the Delhi High Court defined the term 'retailer' as a sale for final consumption in contrast to a sale for later sale or processing (ie, wholesale). A sale to the final consumer, Therefore, it can be said that retail is the interface between the producer and the individual consumer who buys for personal consumption. This excludes the direct interface between the manufacturer and institutional buyers, such as the government and other bulk customers. The retail sale is the last link that connects the individual consumer with the chain of manufacturing and distribution. A retailer is involved in the act of selling products to the individual consumer with a profit margin.

FDI policy with respect to retail trade in India:

It will be prudent to consult press release 4^{th} 2006 issued by DIPP and the consolidated IED policy issued in October 2010, which provide industry specific guidelines for FDI regarding the conduct of commercial activities.

a. FDI of up to 100% for cash and for wholesale trade and export trade permitted by automatic means.
b. IED up to 51% with the prior approval of the Government (ie FIPB) for the retail trade of single brand products subject to press release 3 (2006 series).
c. FDI is allowed up to 50% in Multi Brand Retailing in India.

Scope of the Study

- Foreign direct investment in the retail sector in India is a process to make it easier for people to invest in India
- Even when India was going through difficult times, it was still a good breeding ground for all foreign investors.
- There have been several Indian infrastructures that may have suffered in the field of production and manufacturing due to the lack of essential capital, experience & knowledge.

Need for study

- FDI in the retail sector plays an important role in developing countries such as India. They act as a source of long-term capital, as well as a source of advanced and developed technologies. Investors also contribute the best global management practices. As a large amount of capital comes through these investments, more and more industries are created. This helps increase employment. FDI in the retail sector also helps promote international trade. This investment is an investment unrelated to the debt and non-volatile, and the returns received are generally spent in the host country, which helps the country's development.
- A detailed study of FDI in retail requires a review and the impact of FDI on the Indian economy. The study of FDI trade flows will help to assess the true extent of the globalization of the Indian economy.

- Understand how India has become one of the main beneficiaries of FDI in the retail sector in the world and what drives India's progress towards FDI.

Objectives of the Study

- Analyze the current retail scenario in India.
- To know the impact of FDI in the Indian retail sector.
- To know the impact of FDI in the retail sector of India.

Research Methodology

Secondary Data: Data is collected through secondary sources, such as research reports and websites. The required data has been compiled from various sources, namely, the Asian Development Bank reports, several bulletins of the Reserve Bank of India, publications of the Ministry of Commerce, Gov. of India, Economic and Social Survey of Asia and the Pacific, United Nations, Asian Development Perspectives, Country Reports on Economic Policy and Business Practice - Office of Economic and Business Affairs, US Department of State IBEF, IMF, WTO , RBI, UNCTAD, EXIM Bank is a National Information Center and uses linear programming, etc. The study is based on published sources of data collected. The data was made using Excel with the use of line charts. The graphs are used to analyze the study of entries year by year for comparison. Primary data cannot be taken due to limited resources..

Limitations of the study

- The study focuses on the FDI in the Indian retail sector only
- The study is based on the secondary data & primary data is not carried out which is a great inconvenience

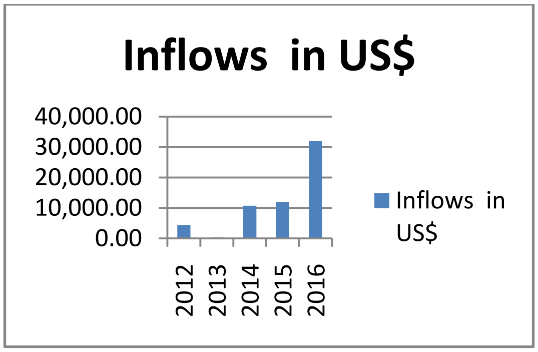
Data Analysis & Interpretation:

India is established as one of the world's leading FDI destinations. In the Asia-Pacific region, the country consolidated its second best position, in addition to China, after a break in 2011 due to the financial crisis. To increase, India's internal investment rule went through a series of changes since the economic reforms were escorted two decades ago. The expectation of policy makers was that an "investor-friendly" command would help India establish itself as a preferred destination for foreign investors. These expectations remained largely unsatisfied despite constant attempts by policymakers to increase India's attractiveness through further changes in policies that included the opening of individual sectors, raising the level so far.

FDI inflows into the county have increased steadily since the sharp fall observed in 2011, following the global financial crisis. Foreign investors see a huge potential for long-term growth in the country. Up to 75% of global companies that are already present in the country are looking to expand their operations considerably in the future according to the attractive Ernst & Young Indian survey. This also confirms that India is undergoing a change, both in terms of investors' perception of their market potential and in reality.

FDI Equity Inflows (Million) of Retail Trading From January 2012 to December 2016

Year	Inflows in US$
2012	4,420.54
2013	302.83
2014	10,775.83
2015	11,969.15
2016	32,023.11

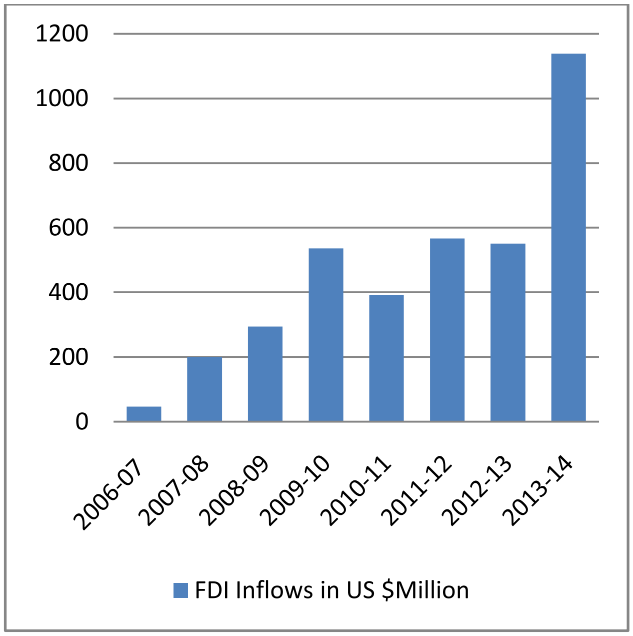


Interpretation

From the above graph the retail trading inflows are high in the FY-16 compared to other years. The inflows stood US$ 32,023. The government was taken initiatives allowing FDI in multi brand retail up to 50% in the retail sector. In the FY2013 there was less inflows generated compared to all other financial years. After the FY 2013 there is an increasing flow of inflows continuously. This is also one of the results of allowing single brand retailing up to 100% in India. Countries like Mauritius and Singapore are top investing countries in the retail sector to invest in India. The policies of retail sector are also altering from time to time according to the requirements of India.

Sector Specific Inflows in FDI in Retail Inflows in US$ Million From 2006-2014

Sector Specific Inflows in FDI in Retail	FDI Inflows in US$ Million
2006-07	47
2007-08	200
2008-09	294
2009-10	536
2010-11	391
2011-12	567
2012-13	551
2013-14	1139



Interpretation: From the above graph the inflows of specific retail sector is high in the FY 2013-2014 as the 1139 US$ million equity inflows generated, the reason behind the highest inflows is allowing organized retail sector in India. The initial inflows are 47 US$ million in the FY 2006-07 then the year by cash flows are increasing and in the FY-20011 can observe there is drop down of inflows because of the policies are not favorable to the Indian economy.

Industry/Country of Origin Foreign Direct Investment Companies in Retail Sector 2015-16

	Wholesale and retail trade
France	9
Germany	33
Japan	46
Mauritius	41
Netherlands	15
Singapore	58
Switzerland	13
UAE	22
UK	24
USA	64
Other	108
Total	433

Interpretation

From the above graph the USA stood first in investing in Indian retail sector, the number of companies investing by the USA are 64. The second place is Singapore with the 58 companies and the Mauritius with 48 companies taking the third place. This can be noticed that the companies with different countries are investing only for the favorable policies of Indian Government allowing them to invest in India. Retail trade plays a major role in India to spawn a major income towards income and contribution to GDP.

Current Retail Scenario

- The Indian retail market is expected to grow at a Composite Annual Growth Rate (CAGR) of 10 percent to USD1.6 billion in 2026 from USD641 billion in 2016. While the general retail market is expected to grow 12% per year.
- It is expected that India's Business to Business (B2B) e-commerce market will reach USD700 billion in 2020. Online retail is expected to be on a par with physical stores in the next few years.
- The total potential of India from Business to Consumer (B2C) is estimated at USD26 billion, of which USD3 billion can be achieved over the next three years from 16 product

categories, according to a study by the Federation of Chambers of Commerce. Trade and Industry of India, FICCI & Indian Institute of Foreign Trade (IIFT).

- India has replaced China as the most promising market for retail expansion, backed by the expansion of the economy, along with the rise in consumption rates, the urbanization of the population and the growth of the middle class.
- India is expected to become the fastest growing e-commerce market in the world, driven by strong investment in the sector and a rapid increase in the number of Internet users. Several agencies have high expectations about the growth of Indian e-commerce markets. It is expected that e-commerce sales in India will reach USD120 billion in 2020 of USD30 billion in FY2016. In addition, India's e-commerce market is expected to reach USD220 billion in terms of gross merchandise value (GMV) and 530 million buyers by 2025, led by faster speeds in reliable telecommunications networks, faster adoption of services Online and better variety and convenience
- India's direct sales industry is expected to reach a size of 23.654 billion rupees (3.54 billion dollars) for the 2019-20 fiscal year, according to a joint report by the Indian Direct Selling Association (IDSA) and the PHD.
- Indian exports of lifestyle and retail products at the local level grew at a compound annual rate of 10% from 2013 to 2016.
- The size of modern retail in India is expected to double to Rs 171,800 crore (USD25.7 billion) from Rs 87,100 crore (USD13 billion) in three years driven by omni channel retail.
- IKEA, the furniture company based in the Netherlands, has purchased 14 acres of land in Bangalore to establish its third point of sale in the country
- Future Group, a consumer goods company in India, has signed a joint venture with KhimjiRamdas Group in the United Arab Emirates for the sale of garments in Oman with both companies investing USD11.7 million each. The joint venture will first launch four to five stores in Oman & will gradually increase the count from 17 to 18.

- Amazon India plans to double its storage capacity in India by adding 14 new warehouses in June 2017, with the objective of maintaining rapid growth in sales and service to the most remote parts of India.
- Bang and Olufsen, a Danish manufacturer of loudspeaker and stereo systems, plans to install eight to ten independent satellite stores by the end of the 2017-18 fiscal year in cities such as Kolkata, Hyderabad, Ahmedabad among others.
- Walmart, the global retail giant, plans to open 50 new cash-and-carry stores in India over the next three to four years and locate half of the stores in Uttar Pradesh and Uttarakhand, while creating more than 40000 jobs in the two states.
- The global e-commerce giant, Amazon plans to enter the Indian retail food sector by investing USD515 million in the next five years, according to Mr. Harsimrat Kaur Badal, Minister of Food processing industries, Government of India
- Major American clothing retailer Gap Inc, has partnered with fashion portal Arvind Group NNNow.com to sell its products online, which will help the retailer expand its presence beyond metropolitan cities.
- Future Consumer Ltd formed a joint venture (JV) with the UK wholesaler, Booker Group, with an investment of Rs 50 crore (USD7.5 million), to establish 60-70 cash-and-carry stores in India in the next 3-4 years.
- Adidas India Private Limited, outlined plans to open around 30-40 flagship stores in Delhi, Mumbai & Bangalore by 2020.
- Mad over Donuts (MoD), outlined plans to expand its operations in India by opening nine new MOD stores in Hyderabad and Chennai by March 2017.
- Urban Ladder, an online furniture store, is in advanced talks to raise about USD25-30 million from existing investors Kalaari Capital, SAIF Partners and Sequoia Capital, along with a new investor, which will be used to fund their plans for expansion.

- Hennes & Mauritz (H & M), the clothing retailer based in Sweden, is in advanced talks with Mumbai-based Prakhhyat Infra projects Pvt Ltd to rent around 275,000 square feet of space in Bhiwandi, Maharashtra, to establish its first storage center in India

- Future Group has partnered with Laura Ashley, the UK clothing and hardware retailer, to manufacture and sell merchandise and wholesale distribution in India

- Parle Agro Pvt Ltd will launch Frooti Fizz, a succession of the original Frooti Mango, which will be sold in 1.2 million points of sale in the country, as it aims to increase its annual income of Rs 2800 crore (USD0.42 billion) to Rs 5000 crore (USD0.75 billion) for 2018.

Impact of the FDI in Indian Retail Sector

The impacts of FDI in the Indian Retail Sector are the following

1. Reserve Currency: As the limit increases to 51% in multi-brand retail, direct investment from abroad called IED will enter to start the business. The capital inflow would increase the capital reserve in the balance of payments, which shows the nations capacity in terms of FOREX.
2. Farmers: The current problem of the Indian economy is the fiscal deficit, which is mainly due to the subsidy granted to farmers, which is considered unproductive. The only way to reduce this subsidy is to make farmers independent by having the system that guarantees them receive a good price for the product. Organized retailers that are capital giants can buy directly from farmers who pay a good price. Then, the government should make sure that the farmers are paid the same price of what they are eligible for.
3. Small & Medium Business: In the rules that are taught to the foreign player, they must buy 30% of the product dealing with the Small and Medium Company. This ensures the development of SME. The foreign player wants to provide the quality product. SMEs would be encouraged to produce a high quality product.
4. Infrastructure: Players impose themselves with the restriction of investing 50% of their investment in the Back-End infrastructure. The ruling party in India, where economic development is affected by the lack of infrastructure, is very prudent when it comes to

investing in that area. It would become an economic base in many ways, Ex; Transportation

5. GDP: The decrease in GDP mainly due to the agricultural sector is causing the economist to worry more. FDI in the retail sector would improve GDP by 0.5%, according to economists. The booming industry with potential capacity would contribute to higher GDP

Findings

- In the Asia-Pacific region, the country consolidated its second best position, in addition to china after a break in 2011 due to the financial crisis.
- Mauritius, Singapore and the United Kingdom are the three main contributors of FDI in India.
- According to the recent survey conducted by the National Conference on Trade and Development, India will be the third largest recipient of FDI in the retail sector during the three year period ending in 2017.
- Retail revenue for the 2016 fiscal year was 32,023.11, which was a period of high generation flows compared to all other years.
- Allow 100% FDI in cash and carry. Individual retail was also a major change in FDI in retail policy and allowing FDI in multi-brand retailers limited to 51% was also a drastic change in the Indian economy
- The 10 FDI factors that influence the retail sectors in India are: GDP growth, multiple brands, better product distribution, better quality products, employment opportunities, local manufacturers, competitive marketing, monopoly power, development of infrastructure and marketing innovations
- India has received higher NRI deposits and commercial loans largely due to its rate of economic growth and stability in the country's political environment.

Suggestions

- It is important to consider whether FDI in the Indian retail sector that is attracted is beneficial to the economy. There is already a substantial body of research on the effects of FDI in general and the factors that can make FDI more or less beneficial.

- FDI in the retail sector can make a positive contribution to economic growth by providing additional capital and facilitating technology transfers.
- To achieve a growth of around 7% in India's Gross Domestic Product, net capital flows should increase by at least 28 to 30 percent in general.
- Allowing foreign companies to enter the Indian retail sector also leads to sophisticated retail marketing.

Conclusion

- FDI in the retail sector would certainly make it possible to optimize youth employment in India.
- FDI provides India with stability in the inflow of funds, access to international markets, growth of exports, transfer of technology and training, and improvement of the balance of payments.
- FDI in India in the retail sector is very important in terms of value: the size of the retail sector in India is $ 300 billion. The organized sector contributes approximately 4.6% to total trade.
- The retail sector in India contributes 10% of the gross domestic product and 8% with employment.
- The multi brand retail sector is still behind in its reach.
- Tickets will also move frequently in the coming years.
- Government policies and rules vary year after year according to the current scenario of the Indian economy

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