

A STUDY ON FDI POLICY AND INDIAN RETAILING

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Abstract Globalization leads to economic transformation throughout the world which necessitates structural reforms. Developing countries like India need huge capital, infrastructure, improved technology etc. to compete with other countries and emerge as a developed one. Over the past decade, India is facing chronic financial crisis and to overcome this problem, it needs plenty of foreign exchange. Foreign exchange can be earned either through exports or through Foreign Direct Investment (FDI). After 1990s, the Indian Government recognised the significance of FDI in the development of the economy and designed its FDI policy and economic policies for attracting the foreign investors. Nowadays retailing is the fast growing sector and its contribution towards capital formation is also significant (20 percent of GDP). In 2011, the Government has undertaken various retail reforms for attracting the single-brand and multi-brand global retailers. It adopted a 'welfare motive' policy of FDI by protecting the domestic retailers and opened the doors for global investors and retailers. FDI is considered as a major component for the growth of retail sector which ultimately leads to the development of the economy as a whole. On this backdrop, the present study is undertaken to analyze the impact of FDI policy on Indian retail sector.

Keyword: Globalization, Reforms, FDI, Organised and Unorganised Retail Market, Single Brand and Multi-Brand Retailers

INTRODUCTION

Retailing is one of the distribution channels and a retailer is an important intermediary between the producer and the ultimate consumer. Due to its utmost importance in channels of distribution, it has become a significant sector not only in India but also in the entire world. In ancient days, retailing used to be limited to domestic products and sellers only. Globalization brings in enormous changes in all the sectors of the economy, especially retailing in India. It brings in foreign brands and foreign retailers into the country. The Indian retail market is growing fast with 40 million work forces (3.3 percent of population). It is the major contributor of nation's GDP and employment. It is contributing around 20 percent for the GDP and 8 percent of employment.

Table 1: Share of Retailing in Total Employment of the world

Country	Share of Retail in Total employment (%)
India	6-7
China	6
Poland	12
Brazil	15
USA	11.7
Korea	18
UK	11
Malaysia	7

Source: ICRIER Policy Series, August, 2011.

Table 1 shows the share of retail in Indian employment, which is the lowest of all the other countries. Total retail employment in India, both organised and unorganised, account for about 6 percent of Indian labour force. Retail sector in India can be expanded using FDI which would create larger employment. Government anticipates that this sector will provide 100 million jobs in future with the entry of FDI in retail sector. As India is an underdeveloped country with problems of huge population and unemployment, flow of FDI is essential for the fast growth of the economy.

In India retail sector was grouped into two categories such as *organised* and *unorganised* retail marketing. *Organised retailing* is to be undertaken by the licensed retailers who are registered for sales tax, income tax, etc., which include supermarkets, corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. On the other hand, *Unorganised retailing* is a traditional form of retailing such as kirana shops, petty general stores, paan/beedi shops, handcart and pavement vendors, etc. which account for 96 percent of the Indian market. Organised retailing is the recent development and accounts for only 4 percent in urban areas and almost nil in rural areas.

Until 1990s, Indian retailing and FDI policies are rigid and restricted the innovative ideas and entrepreneurship. Some rigid regulations such as "signboard licenses" and "anti-hoarding measures" etc. hindered the entry of multi-brand stores into the country. Due to the rigid business laws and tax policies, monopolistic practices of the middlemen and poor logistics and infrastructure facilities etc., India has lagged

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behind in retailing. Then the Indian Government recognised the importance of this sector and has undertaken various market reforms in order to encourage the retailing. Slowly the Indian consumers also realised the benefits such as the quality, choice, convenience and benefits of organised retail industry.

FDI, also known as International Direct Investment, is an important component of capital account /balance of payments. As India is becoming more and more attractive for the foreign investors, the investors are searching for the opportunities for developing malls and hypermarkets. Though India practices traditional retailing, but ready to adopt organised retailing and reach around \$30 billion by 2010 with the help of foreign inflows. The Indian retail market is one of the top five retail markets in the world by economic value estimated to be US\$ 450 billion.

In 1997 India allowed foreign direct investment (FDI) in cash and carry wholesale only with some restrictions and government approval. In 2006 the restrictions were relaxed to some extent in order to liberalize foreign inflows and automatic permission was granted. During 2000-10, Indian retail attracted about \$1.8 billion in FDI which represents 1.5 percent of total investment flow into the country. In 2012, India liberalized the policies in order to attract the foreign investors in Indian retail market with 100 percent ownership. In June 2012, IKEA announced it has applied for permission to invest \$1.9 billion in India and set up 25 retail stores. Fitch believes that the 30 percent requirement is 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 14th September 2012, the Government of India (GOI) announced the opening of FDI in multi-brand retail, subject to approvals by individual states. This decision has been welcomed by economists and the markets, however has caused some criticism. On 20th September 2012, the GOI announced the FDI reforms for single and multi-brand retail and make effective under Indian law. On 7th December 2012, the Government allowed 51 percent FDI in multi-brand retail in India.

Retailing in India is emerging as a fast growing sector with a growth rate of around 25-30 percent annually. The contribution of retail industry to GDP was between 8-10 percent in 2007 where as it is 22 percent in 2010. The recent decision by Government to allow 100 per cent FDI in multi-brand retail has generated a lot of interest amongst all the stake holders. In 2007, India was ranked the 12th largest consumer market and is expected to be the fifth-largest consumer market by 2025 after the US, Japan, China and the UK (McKinsey and Company, 2007). This has made the country an attractive destination for foreign retailers. AT Kearney (2011) ranked India fourth worldwide (after Brazil,

Uruguay and Chile) and first among emerging Asian markets as an attractive destination for foreign retailers. According to CBRE report, India attracted the largest number of new retailers among emerging and mature markets during 2010. The GOI has realised that growing consumerism and brand-consciousness can enable economic growth. The government also developed India as an outsourcing hub for foreign retailers and the presence of foreign retailers in the domestic market can increase sourcing from India. As a result, the government formulated a *Brand-based Retail FDI policy* in 2006 which allows 51 percent FDI in a retail enterprise with the following conditions: (a) only single-brand product can be sold (b) products should be sold under the same brand internationally, (c) the retail would only cover products that are branded during manufacturing and (d) any addition to product categories would require fresh approval from the government. India is the only country in the world that has a brand-based retail FDI policy. This policy assumes that Indian consumers are brand conscious, have knowledge of foreign brands, and want access to foreign brands in the Indian market. As a result of this policy, several foreign retailers including Giorgio Armani (Italy), Louis Vuitton (France) Rino Greggio (Argentina), Signature Kitchens (Malaysia) and Crocs Inc. (USA) have entered the Indian market.

REVIEW OF LITERATURE

FDI and retailing are the current burning issues and several researches were conducted on various aspects of FDI. It is an interesting subject for research scholars and policy makers. The literature review mainly focused on the nature of Indian retail markets, the opportunities available in the Indian market for the growth of organised retail and the impact of FDI on Indian retailing.

Chopra (2006) opined that retailing in India is evolving rapidly with an increasing number of global retail firms and several foreign investors are willing to invest in this sector. This sector grows fast by more than 27 percent over the next five to six years. Sinha (2003) viewed that traditional outlets are preferred as consumers can bargain while modern outlets are preferred because they link entertainment with shopping. Joseph and Soundararajan (2009) preferred modern outlets as they provide better product quality, lower prices, one-stop shopping, choice of more brands and products, better shopping experiences with family and fresh stocks etc. Mukherjee and Patel (2005) opined that consumers are the major beneficiaries of the retail boom as organised retailers are initiating measures such as tracking of consumer behaviour and consumer loyalty programmes to retain their market share. Rao (1998, 2000) reported that Indian consumers recognise value addition made by a brand and there is a preference for foreign brands. Kinra (2006)

viewed that Indian consumers believe that foreign brands are of better quality than Indian brands. Kaur and Singh (2007) found that children are becoming key decision-makers in household purchases who are much interested in branding.

Foreign direct investment has been proved in the literature to be an important promoter of growth in its own right. Borensztein *et al.* (1998) opined that FDI is a key ingredient of successful economic growth in developing countries because the very essence of economic development is the rapid and efficient transfer and cross border adoption of best practices, be it managerial and technical best practice or deployment of technology from abroad. Proximity and better access to large market are also well known to attract foreign direct investment that in turn implies often accelerated technology transfer. As such better worker training dispensed by foreign investors has often been argued to raise the level of productivity. Countries can in effect use such firms as catalysts that allow them to leapfrog stages in development. Foreign direct investment can thus speed up the structural shift of the economy. Agosin and Mayer (2000) argued that FDI act as a catalyst for inward investment by complementing local resources and providing a signal of confidence in investment opportunities.

According to Arabi (2005) and Agarwal (2001), FDI in India has remained domestic market seeking. It is widely believed that the type of FDI and its structural composition matter at least as much for economic growth effects as does the overall volume of inward FDI. Basu (2012) states that as of now only ten states in the country have endorsed the Centre's decision to allow FDI in multi-brand retail. AT Kearney, the well-known International Management Consultancy identified India as the '*Second most attractive Retail Destination*' among thirty emergent markets in the world. Singhal (2011) considered the retail industry is one of the pillars of the Indian economy with a contribution of 14 percent to the national GDP and employing 8 percent of the total workforce in the country.

A publication of the World Bank and the International Finance Corporation (2009) indicates that FDI assists in increasing the income that is generated through revenues realised through taxation. It also plays a crucial role in raising the productivity of the host countries. Koshy Joseph (2006) described that the decision of permitting foreign direct investment (FDI) in the retail sector has been a debate in India for a considerable period of time. Singh and Dr. Mandeep (2010) says that since the Indian retail sector is highly fragmented and domestic retailers are in the process of consolidating their position, the opening up of FDI regime should be in phased manner over 5 to 10 year time frame so as to give the domestic retailers enough time to adjust changes. Khatore, and Parekh (2009) suggested that the retail policies are to be further liberalized in order to attract foreign investors. Parekh and Paresh (2010) opined that it

is to rethink on the restrictions on trade such as mandatory rural employment creation and mandatory investment in back-end infrastructure, etc. while permitting FDI.

Kalhan (2007) indicated that introduction of multi-brand stores adversely affect the petty retail shops. Sometimes the unorganised sector may be vanished with the flow of big malls. Mukherjee and Patel (2005) reported that the flow of FDI in organised retailing enables fast growth of industry and joint ventures with foreign retailers enable easy accessibility of finance and global best practices. Hence they recommend that innovative FDI policy is essential for fast growth of retail markets in India. Several researchers like Henley (2004); Palit and Nawani (2007); Pires, Stanton and Salavrakos (2010); Jain and Suklecha (2012); Moghe (2012) have identified various problems such as lack of infrastructure and improved technology, supply chain problems, issues of real estate and human resources. They also recognised that insufficient investment in logistics and storage facilities are the bottlenecks found in Indian retail market. Henley's (2004) study shows that China is attracting more FDI than India by innovative and attractive policies. India lags behind due to high tariffs, poor physical infrastructure, unfriendly and rigid regulatory system etc.

Fulzele (2012) studied the impact of FDI on employment, consumers, capital inflow, infrastructure, farmers and retailers which is very favourable for the growth of the overall economy. Ranjan (2010) suggested some recommendations to the retail industry as well as to the Government to take adequate steps in order to face challenges raised at the time of entry of global retailers as there are chances of dominance by the foreign retailers over the domestic traders. Dey (2007) also cautioned the Government in allowing FDI into the country by considering the constraints behind it. Gupta (2010) suggested that FDI in retail should be encouraged with some restrictions. According to Malik (2012) Indian consumers are more aware of service quality, store convenience, product quality and availability of new products in retailing. Pai (2011) said that the FDI inflow in retailing decrease the inflation rate and current account deficit. Nayyar (2011) viewed that the FDI in retail will enable the farmers to get best price for their produce. Guruswamy (2007) viewed that though FDI in retailing started late but has become an emerging sector in the economy.

Joseph *et al.* (2008) study on organised retailing shows that the entry of big malls affect the unorganised retailers and give rise to monopoly in pricing and supply of goods. Pires, Stanton and Salavrakos (2010) viewed that various legal, technical and socio-economic problems linkup with FDI and economic growth. In order to overcome those problems and to encourage free flow of FDI, the government has to provide various incentives and subsidies to free up the FDI infrastructure. Economic Survey (2011-12) for FDI in multi-brand retail states that the Inter-Ministerial Group

(IMG) on inflation has recommended for leveraging FDI as it noted concerns for high rates of food inflation and low prices grasped by Indian farmers. McKinsey Report (2012) states that the retail productivity in India is very less when compared to other countries in the world due to the rigid regulations of the government. Moghe (2012) opined that the entry of single-brand and multi-brand stores have strong impact on various sectors of the economy. Hence the government has to adopt strong mechanism in order to safeguard the interests of the small and domestic retailers. The high-level group constituted under the Ministry of Consumer Affairs should look after the various issues related to internal trade and suggest recommendations on trade reforms to the government whenever necessary.

DATABASE AND METHODOLOGY

Nowadays the Indian retail market has become fast emerging sector in the world. Globalization brought many changes not only in the economy but also in the attitudes of the people. The Indian retail industry has undergone revolutionary changes by urbanization, rapid development of shopping malls, brand-conscious consumers, and various influences from the western world.

The need to analyze the role of FDI in retailing arises because of the recent considerable importance that the Government of India (GOI) has placed on this sector. Given the fact that India has adopted overwhelming economic reforms in retailing sector, an analysis like this would provide first-hand empirical evidence on whether further efforts in promoting FDI are warranted. Various studies have analyzed and categorized the challenges faced by the foreign direct investment in India. In the backdrop of this, the study related to retail industry was undertaken in order to formulate conclusions for the favourable growth of the industry in particular and the economy as a whole. The literature review provided valuable data source about FDI and the current Indian retail market environment. The general objective of this study is to analyze the FDI strategy in retailing for India's development and compare its market performance to that of other developing countries.

Objectives of the Study

Despite certain attempts made to study different aspects of FDI in India, there remain certain very pertinent gaps. In order to fill the gaps, the present study was undertaken with regard to retail sector. With this background the present study "A Study on FDI Policy and Indian Retailing" has been formulated with the following objectives:

- To discuss the nature of retailing in India.
- To study the present scenario of retailing in India

- To analyze the need of retailing in India related to various sectors/ areas or groups.
- To review the FDI policy towards retailing
- To study the need of FDI in multi-brand retail.
- To analyze the positive and negative impacts of the reforms to be undertaken.
- To review the challenges to be faced by FDI's while investing in India.
- To evaluate the change in the customer's requirements after introduction of FDI in retailing

For accomplishing the objectives of the study, both secondary and primary data have been utilized. The relating to FDI and Indian retail market data has been collected from various published sources and websites such as Publications of Government of India, Publications of Planning Department, Department of Industrial Policy and Promotion Statistics, ICRIER reports, existing literature, and other scholarly works. Primary data is the first hand information and the analysis of the present study is largely based on this data which has been collected through direct interview method. Primary data is collected from the traditional retailers and multi-brand retailers and various consumers in Kakinada city of East Godavari District in Andhra Pradesh. Interpretation of the data is more on qualitative terms than on quantitative terms.

Consistent with the objectives of the study, different techniques have been used for the analysis of data. The data was presented through tables, diagrams and figures and simple statistical techniques of analysis viz., percentages have been applied. Interpretation of data is based on rigorous exercises aiming at the achievement of the study objectives and findings of the existing studies.

Significance of the Study

The present study is a significant attempt to examine the role of FDI in retailing Industry. The study will prove helpful to analyze lacunae in the existing marketing practice, problems and shortcomings in the field of infrastructure development, quantity of FDI etc. Further, it can be helpful to explore some untapped areas where potential for development exists and rectification of the flaws in the present system of economic policy. The study will also prove helpful in enhancing the GDP, earnings of foreign exchange, generating employment avenues and making the country self-reliant. The study may also be equally important for all those interested in undertaking similar studies in the context of other aspects of FDI because certain methods and approaches evolved and employed should be helpful in carrying out further studies of similar nature. The present study is likely to provide valuable information to the government and policy makers

Table 2: Number of proposals under Approval and Automatic Route

Period	Approval Route	Automatic Route	Total
2008-09	6	974	980
2009-10	4	690	694
2010-11	19	1187	1206
2011-12*	10	1123	1133

Source: ICRIER Policy Series* April 2011 to 22nd February, 2012

about the role of FDI in the success of the retail sector. The constraints faced and suggestions made by the study will be of immense help for policy-makers and development programme initiators to plan the future programmes most effectively.

ANALYSIS

The Government of India (GOI) recognised the importance of FDI in provision of capital, infrastructure, technical know-how, and employment generation etc. and hence introduced the New Economic Policy in 1991 by liberalizing the flow of FDI. These reforms enabled fast growth of the economy by increasing its GDP and attaining financial stability with the help of investments in different sectors.

A T Kearney in the 8th Annual Global Retail Development Index (GRDI) 2009 reported that India has become the most attractive place for the foreign investors among 30 countries of the world. It has ranked first in providing major retail opportunities and it worth about US\$ 410 billion, with 5 percent of sales through organised retail. According to the Department of Industrial Policy and Promotion (DIPP) statistics (2012), Indian retail industry should grow rapidly up to US\$ 535 billion in 2013, with 10 percent from organised retail due to fast-growing middle class people, demanding higher quality, attractive shopping environments and stronger brands etc. Apart from this, the retail industry would provide more than 50 million jobs in few years. The DIPP also reported that the new policy of 30 percent of obtaining manufactured and processed products should be secured from small industry and FDI inflows during 2000-10, stood at US\$ 194.69 million in single-brand retail trading.

An Indian company may receive Foreign Direct Investment under the two routes as given under:

Automatic Route: FDI in sectors/activities to the extent permitted under the automatic route does not require any prior approval either of the Government or the Reserve Bank of India.

Government/Approval Route: FDI in activities not covered under the automatic route requires prior approval of the Government which is considered by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs and Ministry of Finance.

FDI in retail industry means that foreign companies in certain categories can sell products through their own retail shop in the country. At present, the GOI is not permitting FDI in pure retailing, but in retail of some brands only. As a result many foreign companies established their own retail stores in certain categories. Many domestic traders opposed the foreign entrants due to their predatory pricing strategy and with a fear of vanishing from the market. Hence the Government has restricted the foreign players to lifestyle products segment only, as grocery marketing has a direct impact on unorganised retail sector.

Table 2 gives various FDI routes and proposals into India during the period of 2008-12.

Determinants of FDI

Basically there are four key determinants (Figure 1) that attract global players to enter into India to grab the opportunities provided by the globalization. These factors influence the flow of FDI.

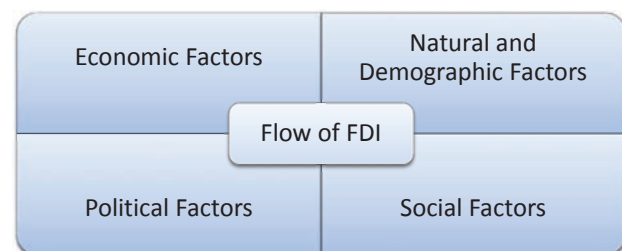


Figure 1: Determinants of FDI

Economic Factors: Different economic factors encourage inward FDI. These include:

- Economic conditions of the country
- Accessibility of markets
- Availability of infrastructure
- Availability of market space
- Competitiveness
- Accessibility of foreign exchange
- Efficient financial markets

Natural and Demographic Factors: These are the natural factors that influence the flow of FDI which are:

- Availability of natural resources
- Availability of manpower and trainability

Social Factors: These include the lifestyle and customs prevailing in the host country such as:

- Traditions and customs of the country
- Attitudes and fashions of customers

Political Factors: These are the crucial factors that determine the flow of FDI which are:

- Business laws and tax policies of the country
- Political Stability
- Government policies and reforms
- Flexibility in the economic policies
- Transparent and stable FDI policy
- Strategic alliances
- Liberalization and Privatization policies

The Government of India has given many tax exemption and subsidies to the foreign investors who would help in developing the economy. These factors determine the potentiality of the host country and provide assurance of plenty profits for the foreign investors.

Present FDI Policy in Retailing

In order to protect the interests of the 15 million small domestic retailers, the GOI has kept tight knot on the foreign investors with the 'welfare' motive. Accordingly the Government has framed the FDI policy with the following provisions:

- FDI up to 100 percent for cash and carry wholesale trading and export trading allowed under the automatic route.
- FDI up to 51 percent with prior Government approval for retail trade of single brand products and now it liberalized to 100 percent after 2012 onwards.
- FDI is not permitted in multi-brand retailing in India

Available Routes for Foreign Players in Retailing

Strategic License Agreements: Under this route, a foreign company can enter into a license agreement with a domestic retailer or partnering with Indian for marketing their brands.

Franchisee Route: This is widely used by many international brands. They enter into the market by opening the master franchise route and the regional franchise route.

Cash and Carry Wholesale Banking: Under this route, 100 percent FDI is allowed in wholesale trading for building a large distribution network.

Manufacturing: A foreign company can establish its manufacturing unit in India along with retailing outlets.

Distribution: An international company can set up a distribution office in India and supply products to local retailers. Franchisee outlets can also be set up by this route.

Joint Ventures: International firms can enter into joint ventures (51 percent stake) with domestic players in single brand retail.

Growth and Trend of Indian Retailing

Over the decade Indian retail industry has indeed witnessed tremendous growth and integrated our Indian economy with the world. It has emerged as one of the most dynamic and fast paced industries accounting for over 10 percent of the country's GDP which has become major attraction for foreign investors to enter India. Heavy initial investment has become a burden to the retailers due to which they are unable to reach breakeven point. Even then, the growing trend of the market, changes in the lifestyle of consumers, increasing per capita income and emerging technologies tempting the retailers to have success in long run. However, India is the fourth largest economy in purchasing power parity (PPP) after USA, Japan and China. Even though 25 percent of the population lives below poverty line, India has a large and growing middle-income group of over 300 million, making it a strong emerging market.

Emerging Trends in Retailing

- *The Foot soldiers (1986):* This is the crucial period in which crucial changes have undergone in retail sector. In India largest retail distribution chain networks established with variety of products.
- *Sachet revolution (1990):* In the mid-1990s, many revolutionary changes in size, packaging, distribution have occurred, especially in the form of sachets- 20 ml plastic pouches have entered.
- *The Big Push (1999):* The big players such as the Tata's, Piramal Enterprises, ITC and S Kumar's etc. entered in the Indian industry to compete with foreign players.
- *The Mall Bug (2000):* The retail formats underwent big changes, mall culture was started in metropolitan cities and slowly spread to other urban regions.
- *Second- Movers (2001):* Competition began in full earnest and branded items entered into the markets.
- *Size matters (2004):* Organised retail in India adding space by year after year, means enhancing and spreading the operations to remote areas.
- *More of the same (2005):* Urban organised retailers focused on luxury brands, gold, jewellery, furniture etc.

Table 3: FDI inflows during 1998- 2010 (Value in Billion dollars)

Year	FDI inflows (in Billion dollars)	Increase/decrease in value	Increase/decrease in percentage
1998	\$ 201	-	-
2000	\$ 204	+03	01.47
2002	\$ 238	+ 34	14.28
2004	\$ 278	+ 40	14.38
2006	\$321	+ 43	13.08
2008	\$ 368	+ 47	12.77
2010	\$ 421	+ 53	12.59

Source:www.fdiindia.in

Table 4: Future Turnover and Share of Retailing in India (in Crores of Rupees)

Year	Total Retailing turn-overs	*Growth over last year, in %	Organised sector turnover	Growth over last year, in %	Market share in %
2011	23,55,000	10.82	1,75,000	25.0	8
2012	26,40,000	12.10	2,20,000	25.71	9
2013	29,50,000	11.74	2,75,000	25.0	12
2014	32,65,000	10.67	3,45,000	25.45	12
2015	36,25,000	11.02	4,25,000	23.18	13
2016	39,95,000	10.20	5,30,000	24.7	14
2017	44,95,000	12.51	6,70,000	26.41	15
2018	50,35,000	12.01	8,40,000	25.37	17
2019	56,15,000	11.51	10,50,000	25.00	19
2020	62,40,000	11.31	13,10,000	24.76	21

Source:ICRIER Policy Series

- *Green Evolution (2007)*: Big players such as Reliance Industries (RIL), Aditya Birla Group, the Mittals, Pantaloon etc. jumped into retailing of fresh vegetables, fruits and groceries.
- *Shutters Down (2009)*: Some retailers like Subhiksha Trading Services (Chennai-based) went drowned in debts and hence closed their business.
- *Foreign Hand (2010)*: Big retailers entered into the country with the green signal to foreign investment with some restrictions.
- *The Gates Open (2011)*: The government has increased FDI in retail - 51 percent in multi-brand, and 100 percent in single-brand retail.

The emerging trends of retail industry in India during the period 1986-2011 gives the strategies played by the big domestic players of the country and the FDI policy of the Government in encouraging the FDI inflows. Nowadays customers' awareness and knowledge towards the products have developed to considerable extent. The revolutionary changes in the attitudes, fashions and trends of the customers led to multi-brand stores and big malls in the country. Many big players such as Reliance, Birla Group, Mittals, Pantaloon

etc. entered into retailing, they even entered into retailing of fresh vegetables, fruits and groceries etc. in order to reap the fruits of retailing.

Table 3 gives the flow of FDI into the country during 1998-2010 which shows an increasing trend due to the liberalization of FDI policy after 1990s. In the year 1997, 100 percent FDI was permitted in cash and carry wholesale trading and in 2006, 51 percent investment in a single brand retail outlet was permitted. Indian government announced a number of reforms in the process of liberalization of the economy. Since its inception there has been a remarkable hike in the FDI inflows in the country.

From Table 4 it is clear that the total turnover in the year 2011 was Rs. 23,55,000 Crores and in the year 2020 it will cross Rs.62,40,000 Crores, in the same period retailing turnover in the organised sector amounted to Rs. 175,000 Crores and it will touch to Rs.13,10,000 Crores. Share of the organised retailing in the year 2011, is 8 percent and it will touch 21 percent in the year 2020. At present, the growth of turnover of retailing is 10 percent and in the next 10 years it is estimated to increase by 11 percent every year. In case of organised retailing, growth would be more than 25 percent every year up to 2020.

FDI- Impact and Analysis

Market liberalization, a growing middle-class, and increasingly assertive consumers have led enormous changes in the trends of retailing. Many big Indian retail players such as Shopper's Stop, Pantaloon, Lifestyle, Subhiksha, Food World, Vivek's, Nilgiris, Ebony, Crosswords, Globus, Barista, Qwiky's, Café Coffee Day, Wills Lifestyle, Raymond, Titan, Bata and Westside etc. expanded their operations even to provisions, vegetables and fresh fruits retailing etc. By looking the growth opportunities in retailing, many other companies such as Wadia, Godrej, Tata, Hero, Malhotras, etc., are planning to enter in retailing sector in order to reap the benefits of this sector. At present Reliance Industries Ltd. has entered into retailing by establishing its stores almost all the major cities in the country. As Indian retailing is a profitable and attractive sector for foreign investors, already many international players such as McDonald's, Pizza Hut, Dominos, Levis, Lee, Nike, Adidas, TGIF, Benetton, Swarovski, Sony, Sharp, Kodak, and the Medicine Shoppe have entered India indirectly, via the licensee/franchisee route, since FDI is not allowed in the sector.

According to the report of Hindu, the organised retail business comprises only a small proportion of the total size of the Rs. 9,00,00 Crores (\$150 billion) retail sector. It is growing at the rate of 5-6 percent per annum and is expected that it may grow at 3 percent every year. However, it is now set to grow at 25-30 percent per annum. In developed countries, the share of organised retailing is about 70 percent of the total business. The GOI recognised that retail sector is one of the main contributors of GDP and hence opened the gates for foreign investors into retailing. But it is still in dilemma that whether to allow 26 per cent or 49 percent FDI in the sector.

Benefits of FDI

Mainly FDI in retailing enables sustainability and fast growth of the economy. The following are the benefits derived from the FDI in retailing:

- Improvement in the supply chain infrastructure by enabling the availability of required capital and up-to-date technology /technical know-how.
- Up-gradation in agriculture, manpower and skill development and may also lead to an improvement in the overall productivity.
- Improvement in farmers' income through the removal of structural inefficiencies and direct sales to organised retailers
- Benefits to customers by providing better quality of products at lower prices.

- Acts as a tool to alleviate poverty by creating more employment opportunities
- Growth of GDP by encouraging exports by 8 to 10 percent per year.
- Controls Inflation with increased capital inflow by attracting the investors with subsidies and tax benefits.
- Improving retailing services by acquiring the best management practices from the world-class big players such as Wal-Mart, Carrefour, A hold, JC Penny etc.
- IT-friendly techniques enable less wastage and growth of supply chains.
- Development of Small Scale Industries (SSIs)
- Development of professional entrepreneurial and marketing skills
- Generates employment by improving the quality of employment
- Stimulate infant industries and other Supporting industries
- Increases efficiency
- Provides Franchising opportunities for local entrepreneurs

Drawbacks of FDI

Though flow of FDI gives many benefits, sometimes it may cause damage to the local and domestic retailers. There may be chances of dominance of the foreign players over them. In addition to that, the following are some of the drawbacks of FDI in retailing:

- May lead to unemployment
- May lead to unfair competition among domestic retailers
- Suppression of domestic retailers by the foreign entrants
- Act as a catalyst for underlying strengths and weaknesses in the host economy, bringing to the fore both its advantages and its problems.
- May lead to adverse distributional and employment effects in the host country.
- Promotes cartels and monopoly
- Induce unfair trade practices like Predatory pricing
- Increase in real estate prices
- Would give rise to cut-throat competition rather than promoting incremental business.
- The financial strength of foreign players would displace the unorganised players.

Constraints of FDI in Indian Retailing

Though retailing is the most profitable sector for a developing country like India, it is facing various problems both from the unorganised retailers and the Government. These are the constraints that obstruct the free flow of FDI in retailing which are broadly categorized into four major heads based on their nature, which can be represented as shown in Figure 2.



Figure 2: Categories of the problems of Indian retailers

Availability of retail space: Usually traditional Indian shops are small about 1000 sq. ft. and old which are not suitable for global retailers. Obtaining land to establish retail stores as per their requirements is a significant issue in India.

- Shortage of quality real estate and infrastructure in the country.
- Shortage of retail space in central and downtown locations
- Presence of strong pro-tenancy laws makes it difficult to evict tenants
- Complex and time consuming process of land-use conversion
- Prohibition of foreign investment in the real estate business.
- Very high stamp duties on transfer of property.
- Difficulty in procurement of retail space due to rigid building laws.
- Nonresidents are not allowed to own property except when they are of Indian origin.

Establishing supply chain logistics: According to Kottoli (2006), India lacks a strong supply chain when compared to Europe or the United States. So many intermediaries are prevailing in the existing supply chain such as manufacturer - national distributor - regional distributor - local wholesaler - retailer - consumer. In order to make the product cost

effective, the global retailers have to build their own supply chain which should be strong and effective. Another serious problem is that the poor infrastructure of airports, road systems, power lines, and ports affects the transportation and distribution networks adversely.

- Stiff competition from the unorganised sector.
- Opposition from small traders towards FDI in retailing with a fear of dominance.
- Settling property disputes consumes lot of time.

Shortage of talent: Non-availability of trained and skilled manpower is another major problem faced by the retail industry. The personnel in the malls and branded stores need high quality of marketing and managerial skills which are not adequate in Indian people. Hence in order to bring them on par with their global standards, the global retailers will have to spend substantial resources in terms of time and money to train the local workforce. The retail industry is suffering from non-availability of sufficient labour as Indian youth are considering these marketing jobs as blue-collared. The Retailers Association of India (RAI) estimates that an additional 2 million workers will be needed in the next two years in order to meet the requirements of the existing planned expansion in the retail sector.

- Indian youth show no interest in retailing jobs as they consider them as blue collared.
- Non-availability of trained and skilled personnel

Political challenges: Political environment also plays an important role in the growth of retailing. India is a federal state with central and state governments and has their own laws of business. The retailers have to clear all the compliances as per both state and central Governments. Getting clearance from central and various state governments, city corporations, and district administration is a tough and challenging task for new global entrants.

- Customs duties are levied on the import of goods in India.
- The business laws are influenced by the customs, traditions, religion and political factors.
- No scope for global business logic.
- Rigid policies of the Government
- Political instability

CONCLUSION

At present every nation is liberalizing its economic policies in order to attract FDI for the sustainability and fast growth of the economy. Indian retail sector is in a boom period and attracting many global retailers due to its market opportunities. It is clear from the study that the entry of global players in retailing leads to free flow of capital and latest technical know how, establishment of well integrated

supply chains, availability of quality products at cheaper prices, development of Small Scale Industries (SSIs) and Small and Medium Enterprises (SMEs), generation of employment, increased incomes to farmers, controls inflation and contributes for capital formation to increase nation's GDP. Taking into consideration the above benefits, FDI in retailing cannot be avoided, but can be encouraged with certain restrictions in India.

It is observed from the above study that FDI has both positive and negative effects on India economy. Due to the benefits derived from the FDI, the GOI has to liberalize the FDI policy in order to encourage the foreign investors. It has to redesign the retail regulations by imposing certain restrictions on the global retailers. The Government should have to encourage FDI on gradual basis and product category –wise. The following are some of the clauses that should have to be followed by the global players:

- FDI should be encouraged in the form of joint venture only.
- FDI should not be encouraged in the established product categories of Indian players.
- FDI should be permitted for sourcing only not for selling of certain products in Indian market.
- Foreign players should be restricted by the format type and number of stores.
- FDI should be encouraged with strict, feasible and mutually beneficial regulations.

Financial crisis facing by the country over the past decade is one of the key reasons for allowing FDI in retailing. The FDI enables to cut down the waste and narrow down the current account deficit. The global players assisting the Indian retailers in controlling the prices of food and other products. It is evident that the role of global players is crucial in the development of the retail sector in India. Hence it can be considered that FDI in multi-brand retail will lead to a significant improvement in India's GDP and overall economic development. The multi-brand retailing brings in improvements in rural infrastructure, technology, price for agricultural produce and employment opportunities which ultimately lead to the overall development of the economy. In order to obtain the maximum benefits, the GOI designed a new policy of multi-branding by product-wise and gradual entry of global players into the country by considering the welfare motive.

However the present study indicates that there would be no threats to unorganised retailers by the new multi-brand policy, rather FDI would help to integrate India's economy with that of the global economy. This policy enables to build strong supply chain and improved manpower and also lessens the negative impact on the economy. In turn it solves the problems of unorganised retailers and provides

quality products at lower prices. It is also evident that the growth of retail industry brings in the economic and social development of the nation. The study also suggests some recommendations towards the FDI policy which has direct impact on the nation's GDP and strategic alliances with foreign investors. Thus the GOI has to design flexible FDI policy with a motive of overall development of the economy. Finally it can be concluded that FDI plays a significant and crucial role in the growth of the retail sector particularly and the economy as a whole.

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