

Role of FDI in Indian Retail Sector

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Abstract: Foreign investment plays a significant role in the expansion of any economy as like India. The Indian retail market is a very large and emerging market. In recent years the government of India has changed and modified various FDI policies according to the retail market such as involving the automatic route and allowing only single-brand in the inflows of Foreign Direct Investment. Retailing is a link between the producer and the consumer for fulfilling personal needs. The retailer takes part in the selling of goods to the customer. India is currently the 3rd largest emerging market and highly fragmented and is almost run by traditional families in India, a lot of departmental stores, supermarkets, and high organized malls are emerging into this retail sector. Hundred percent of FDI is permitted via automatic route in India for the e-commerce market model. This paper presents the current scenario, impacts and upcoming opportunities for FDI in Retail Sector.

Keywords: Retail Sector, FDI, Automatic Route, Single Brand

1. Introduction

A foreign direct investment (FDI) is an investment in the sort of a possession business in one nation by an entity primarily based in another nation. It is thus well-known from a foreign portfolio investment by a notion of direct control. Foreign investment plays a significant role in the expansion of any economy as like India. Many countries provide many incentives for inviting foreign direct investment. Foreign Direct investment acts as a bridge to accomplish the gap between investment and saving. In the method of economic growth foreign capital helps to cover the domestic saving constraint and supply access to the superior technology that promotes efficiency and productivity of the existing production capacity and generate new production opportunity. Countries like Mauritius, Singapore, the US & UK were among the most important sources of FDI in India. An Indian Company may collect Foreign Direct Investment under the two means as given under.

Retailing is a linkage between the producer and the consumer for fulfilling personal needs. The retailer involves in the retailing of goods to the customer. The Retailing may be distributed into two type's namely organized and unorganized retailing.

1. Organized Retailing: It discusses activities undertaken by licensed retailers who are registered for sales tax, income tax.
2. Un-organized Retailing: It is a traditional method of low – cost retailing [5].

The Indian retail business is vastly fragmented and is almost run by traditional families. In India, the huge number of departmental stores, supermarkets, and high organized malls are emerging into this retail sector. India is presently the 3rd largest emerging market in the retail segment. The current change brought in the retail sector by the government has made the retail sector to have a huge number of retailers for India [5]. In India only, limited companies with strong retail backgrounds exist, such as Pantaloon Retail, Reliance Retail, Nilgiri's, Big Bazaar, Bharti Retail, etc. Next to agriculture, retailing is the largest employer in India. Over the last few years, India has been observing a transformation of the retail sector such as departmental stores, hypermarkets, supermarkets, and stores. Earlier, FDI inflows in infrastructure, manufacturing and natural resources were extraordinary in India [4].

2. Literature review

Amit Saha has done research and explained paper on the advent of technology in the recent period being the primary reason for it. Today, retailing means going into shopping centers, going online and going mobile. In all these, small retailers miss out on somewhere. But the closet store is often the foremost vital concern for all reason and seasons. It needs to revive not just survive. The retail stores have to merely uplift its pattern of business and face the competitive world with an additional positive outlook. E-stores and retail stores each ought to survive, none at the cost of the other. It's not concerning about the livelihood, it provides to the thousands of individuals but conjointly the convenience and also the steadfastness of a fixed retail store.

J. Pavithra described the foreign investment in retail which was once a prohibited sector, now became the FDI in retail has now gained momentum in both single-brand retail and multi-brand retail. The prohibited sector possesses such a lot of momentum that the single-brand retail has allowed 100% FDI. The foreign direct investment and politically sensitive multi-brand retail are facing a great deal of hassle, yet policies are to be changed and should be allowed in a phased manner. This will build the retail trade to be broached and also the growth is going to be well developed in encouraging the GDP growth of the country. The small retail stores ought to conjointly operate in a very smooth manner although the foreign players dominate the sector. To Conclude, the growth of the retail industry will be tapped which will allow foreign players to play a major role in upbringing this industry as an emerging sector.

Ramesh and Girish explained that the new revised FDI policy will have both a positive and a negative impact on the Indian retail industry. Before allowing the foreign retailers in India. The government should have first developed the organized retail market and SME sector. The opposition is coming mainly from retail individual owners and the SME sector. In China, it became succeeded because before allowing foreign retailers, China created a strong environment for the existing industrial growth. When FDI in multi-brand retail was announced most of the real estate sector players planned to launch malls in major towns and cities. Few malls in the major cities which are dying will get a boost with the announcement. Competition is very high in the retail sector in India as offline retailers and online retailers are in the early growth stage. Now India requires a distinct model where traditional and modern retail will continue. Another moot question is whether an investment will increase in back end infrastructure, real estate, logistics, and SME sector. Still, in India, a household prefers Kirana stores and nearby shops for unexpected purchases which will keep the stores alive in India as it is very difficult to kill from the roots when traditional retailing roots are spread very deeply in the Indian economy.

3. Research methodology

The data collected for this paper is secondary data which is available on various government websites and various papers are published in the retail sector. As the main concern is on the recent financial year all FDI inflows are gathered and analysis is done.

A. Research objectives

Having presented the immense potential and current status of the entry of the worldwide giants to Indian retail business, this paper continues to flesh out the Indian retail story to highlight a number of the key considerations that organized retailers will need to think about as they venture into the Indian market.

The objective of the paper is:

- To present the Scenario of FDI in the retail sector.
- To determine the impact of FDI on Indian Retailer Consumers.
- To find out the opportunities for FDI in the retail sector.

B. Data analysis

1) To present the situation of FDI within the retail sector.

The growing population and low share of organized retail in India are attracting the world players to enter and set up stores in India. Rising nuclear families is another vital issue. As per the Census of India 2011, the population of India stood at 1,21,01,9342. Among the states, Uttar-Pradesh has the largest share of 16.49 % population followed by Maharashtra 9.29 %, Bihar 8.58 %, West Bengal 7.55 %, Andhra Pradesh 7 % and Madhya Pradesh 6 %. The above states attract large investment in the retail sector.

Online retailers like FLIPKART, MYNTRA, and SNAPDEAL, etc. are developing a sales model to suit Indian conditions. However online sales still create a small portion of overall retail outlay. Offline retailers might take this advantage by putting in physical distribution centers in major cities and towns to increase sales and to face robust competition from the world online retailers [4]. As business surroundings are dynamic, there'll be changes within the trade. Whenever a trade is undergoing an amendment, there'll be a powerful resistance to alter. When the Reliance Company entered the retail sector, there was criticism that it will kill the Kirana stores in India. Nowadays customers are still visiting the stores. They need not stopped visiting Kirana stores entirely. Retailers have attracted shoppers with discounts, loyalty programs, and numerous product portfolios. This has solely reduced the shopper's visit to Kirana stores. The paradigm shifts and transformation of the retail sector in India is extremely slow when compared to different developed and developing economies.

2) To determine the impact of FDI on Indian retailer customers

With the entrance of foreign retailers like Wal-Mart, IKEA, Tesco, Abercrombie and Fitch, Amazon, and others into the Indian market, a streamlining of the prevailing retail partnerships is predicted the value of the Indian retail market stood at USD 435 billion in 2010, with the 7 % share of contemporary retail. The retail market is predicted to grow. Because of the terms and conditions of FDI investments, just like the minimum limit of USD 100 million and 50 % to be tilled into backend infrastructure, the Indian supply chain is probably going to profit. Refined foreign technology can significantly boost the domestic supply chain through efficient storage and transportation facilities, leading to minimizing wastage [3]. The rise in the competition can force Indian retailers to work on enhancing the standard of their merchandise.

3) To find out the opportunities for FDI within the retail sector

For the Government- trendy trade players are giant taxpayers and are tax-compliant. There is progressing to increase in tax receipts. By building an effective and complex supply chain, there is aiming to be a good impact on the logistics, storage and related sectors. This can positively increase direct and indirect tax collections. FDI in retail is predicted to come up with 16.2 billion USD within the sort of VAT etc. by 2021. In line with CRISIL analysis Estimate, FDI investments are going to be between 5 to 6 bn USD (FICCI) to 10 bn USD

For the MSMEs - The interests of the MSMEs are protected with the clause of half-hour sourcing from MSME necessary, the government has tread cautiously, to safeguard and promote the MSMEs. The presence of world players is probably going to spice up exports, through the distribution networks, market position, and brands of the foreign players. This is possible to boost sourcing and exports from India. Thus, FDI in retail provides nice export opportunities for the MSMEs. Giant volumes will be sourced from MSMEs. This may have an

impression on the producing sector through improvement in quality merchandise being manufactured to contend with the world brands, innovation, new technology adoption, which can have an alternate impact on the economy in terms of employment generation and subsequent GDP growth.

For the customers - big-box retailers are in a position to supply merchandise at a low value with fabulous discounts, as they need a well-developed supply chain, sensible acquisition, and effective inventory management. Therefore, customers can get a product at lower costs, better shopping experience, greater types of products, the latest products and styles and quality products.

the service sector. The Indian service sector is generating the right employment choices for the trained worker with high perks. For the small and traditional retailers to contend with giant retailers and to remain within the business, they have to vary their business model and may embrace technology. They have to leverage the increasing trend of individuals choosing credit card payments and guarantee safe cashless transactions. To conclude, it reveals that the entry of FDI in India retail will result in overall economic development.

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Table 1
 Last 10 years FDI Inflows in Indian retail sector [1]

Year	Retail Sector	All Sectors
2007-08	1.27	24575.43
2008-09	0.09	31395.97
2009-10	13.73	25834.41
2010-11	26.27	21383.05
2011-12	31.7	35120.8
2012-13	22.31	22423.58
2013-14	11.3	24299.33
2014-15	168.72	30930.5
2015-16	262.24	40000.98
2016-17	450.94	43478.27

4. Discussion and Conclusion

There are restrictive hitches, a high value of real estate is a serious problem the foreign retailers are facing and can't be lost sight of. Companies, even with robust lobby groups are cautious of red-tapism, bureaucracy. Also, the FDI policy of permitting the State Governments to determine the entry can have serious consequences with the amendment within the political climate.

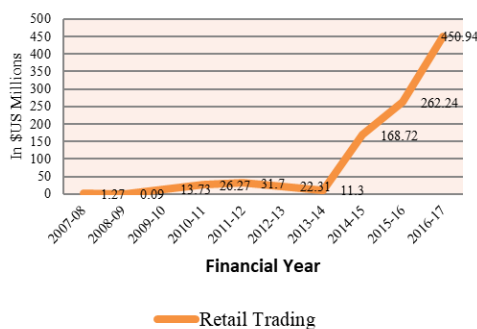


Fig. 1. Graphical presentation of last 10 years FDI Inflows in Indian retail sector

FDI in India includes an important role within the economic growth and development of India. FDI in India to numerous sectors will attain sustained economic growth and development through the creation of jobs, enlargement of existing manufacturing industries. FDI has helped to lift the output, productivity, and employment in some sectors, particularly in