IMPACT OF FDI IN RETAIL INDUSTRY IN INDIA

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ABSTRACT

Topic- "Impact of foreign direct investment in retail industry in India". The paper discusses how foreign direct investment has affected the Indian retail industry. The inflow of foreign direct investment has boosted growth in the retail industry and increased the gross domestic product of India. Government policy and other determinants have been discussed to study and analyze the impact. The Indian retail market is a developing market and has potential for investments. There had been a restriction in the inflow of foreign direct investment till 2006. But since 2006, there has been a positive change in the government policy thereby allowing foreign companies to invest in India and become an owner. The paper elucidates the growth between different sectors of Indian retail industry, the tax incentives and determinants for inflow of foreign direct investment. It also mentions the possible challenges and threats to the Indian retail companies (small, medium and large) by allowing the foreign company of a country to invest in India.

Keywords: FDO, Retail, GDP, Government Policy, Foreign Companies

I. INTRODUCTION

Retailing serves as a crucial link of connecting producer and consumer. The Retail industry is emerging as an attractive market and has seen a remarkable boost to the Indian economy in the past 10 years. India ranked first in Global retail development index, 2017 and is expected to become world's third largest retail market by 2025. Currently, India rank fifth in terms of retail space. The retail market in India is divided into two sector- organized and unorganized sector. The organized sector contributes to about 93% of the retail market whereas unorganized constitutes about 7%. Due to growing economy, advancing technology and other factors, India is viewed as a destination attractive for inflow of FDI. However, there has been some sector which is closed for the inflow of FDI. Retail industry is divided into two:- single brand retailing and multi brand retailing. Government of India has taken an initiative to promote "MADE IN INDIA" and "E COMMERCE" by allowing 100% FDI in online retailing of goods and services through automatic route. This initiative of the government is taken to boost the sale and growth of domestic made goods and services of small and large retailers**.**

II. REVIEW OF LITERATURE

Dr. Namita Rajput, Dr. SubhodhKesharwani, Akanksha Khanna et al

Journal of Business Administration Research, June 2012

The research paper attempts at analyzing the impact of the present retail FDI policy on Indian consumers and economy using SWOT analysis. The strengths were it boosts up competition, provides benefits to farmers and consumers and generate employment opportunities, weakness identified were lack of infrastructure, complex tax and fiscal policies and an unstable government. Opportunities were improving quality standards, distribution and warehousing technologies, rural retailing, threats were job losses, inequitable competition, repatriation of profits outside India. The analysis reveals that the strength and opportunities outweighs the weakness. The threats have to be taken care by adopting innovative solutions and minority friendly policy by government. (rajput, kesharwant, & khanna, 2012)

Bhavya Malhotra

Global Journal of Business Management and Information Technology, 2012

The research paper attempts to study the trends and pattern of flow of FDI and find the determinants of FDI inflows, evaluate the impact of FDI on the Indian economy and to know the flow of investment in India. The author has compared the growth rates of FDI inflow and GDP in a tabular form for the years from 1991-92 to 2011-12(post liberalization period). The author found a positive relationship and believes FDI inflow is beneficial to domestic capital, as well as technology and skills of existing companies. The author also found that there is a need for improvement in solving challenges of resource, equity, political and federal.(malhotra, 2012)

Crisil – Organised retail market share seen rising 300 bps to 10% by 2020

January 15, 2017, Mumbai

According to Crisil, the market share of organized retail sector in India will increase by 10% by year 2020 compared to a growth rate of 7% in last fiscal year. The research findings are that a better operating environment and relaxation of rules for single-brand retail would lead to a faster pace in addition of the stores. "Global single-brand retailers facing growth headwinds in their key geographies will now be more than keen to peg tent in India," said Anuj Sethi, Senior Director, CRISIL Ratings. "And those already present could step up investments. The previous sourcing norms were a bottleneck to scaling-up of operations."

CRISIL has rated 93 organised retailers and their credit quality has been improving as reflected in the credit ratio.(Crisil- Organised retail market share seen rising 300 bps to 10% by 2020, 2017)

Anubhav Pandey in General

Foreign Direct Investment in single brand, multi-brand retail and e-commerce

In this article, the author discusses the implications of the FDI policies in single brand retail, multi- brand retail and e- commerce. The policy issued by Department of Industrial Policy and promotion(DIPP), states that automatic route is to be followed in case of 100% foreign direct investment in single brand retail, however in case of FDI being more than 51%, 30% of the value of goods should be sourced from India. The compliance of e-commerce retail should be done by Indian firms and the proof is provided by investing foreign companies. In case of multi-brand retail, an enabling policy where only 51% FDI is allowed is framed by the central government. The article also explores the scope of the topic by discussing the effect of liberalization on the multi brand retail, comparison of e- commerce policies with that of the multi brand policy and their implementation. The example of Flipkart enables to understand the e- commerce structure better in the recent times.(pandey, 2018)

Jyotsana Chawla, Rachna Agrawal and Bhavna Sharma et al

International Journal of BRIC Business Research, May 2016

The research focuses on small retailers and making some research-oriented paths for moving forward in an ever-changing dynamic environment. The authors believe that the small retailers need to spend time to revive their strategies required to attract customers towards their retail stores. In today's world, with new concepts like e-tailing, customized product, a big shift is seen in the response of the customers unlike in those old days, when customers were dependent on nearby retail stores for fulfilling their needs. The authors have strongly recommended that the small retailers must concentrate more on CRM practices, bring improvement in SCM, use feedback facility, keep a track record on customers, bring improvement in ambience and most importantly provide a personal touch to the services provided. The authors have found that liberalization of FDI policy towards Retail Sector bears positive as well as negative results. The authors also recommend Government to frame strict policies, taking care of small retailers, so that organized and unorganized sector may co-exist and flourish together.(chawla , agarwal, & sharma, 2016).

III. RESEARCH METHODOLOGY

STATEMENT OF PROBLEM

A study on impact of foreign direct investment in retail industry in India for sectors-

- Pharmaceutical
- Automobile
- Service
- Construction
- Telecommunication

OBJECTIVES

- To analyse overall impact of the 5 selected sectors.
- To study the trend analysis of the 5 selected sectors.
- To analyze the growth across different segment in the retail industry.

SCOPE OF STUDY

The purpose of the paper is to study the impact of FDI in retail industry for the past 10 years. Our scope of study has been restricted to 5 sectors. The basis of selecting these 5 sectors is the ranking among the top sectors in terms of amount of foreign direct investment inflow. The data has been collected for the past 10 years only as the retail industry has undergone significant transformation since then. Indian retail industry was largely dominated by small unorganized sector before globalization and introduction of FDI in India.

HYPOTHESIS

H01: There is no significant growth among different sectors with respect to FDI inflow.

H02: There is significant growth among different sectors with respect of FDI inflow.

SOURCES OF DATA

Formulation of objectives and statement of problem is an important aspect of a research to determine the scope, depth and direction to our research.

Our major source of data is secondary.

DATA ANALYSIS TOOLS

Data analysis is important to prove that the hypothesis is correct. Therefore it is very important to select right data analysis tool. The technique of trend analysis is to analyse the growth of selected sectors in the retail space. To prove whether the growth amongst these sectors is significant relating to inflow of foreign direct investment, one way anova has been applied.

EXPECTED OUTCOME

So far the research has went as expected, as there could be no significant growth among different selectors sectors with respect to inflow of FDI in India. The sector grew at a different rates and contributes their percentage to the GDP. This percentage is not the same and it varies from sector to sector.

LIMITATIONS

The research paper is narrowed down to only growth aspect for retailing in India. Any aspects about the other sectors has not been taken into consideration.

IV. DATA ANALYSIS AND INTERPRETATION

The paper studies **ONE WAY ANOVA** on the growth rate of foreign direct investment of 5 selected industries under single retail industry.

After interpreting the results of the test, we conclude that the null hypothesis is true. There has been no significant change in the growth rate of these 5 sectors. The study proves that the sigma is more than 5% which is 49.3%.. The reasons for the same could be because of The foreign direct investment in these segment is 100%..Thus, proving the null hypothesis.

ANOVA

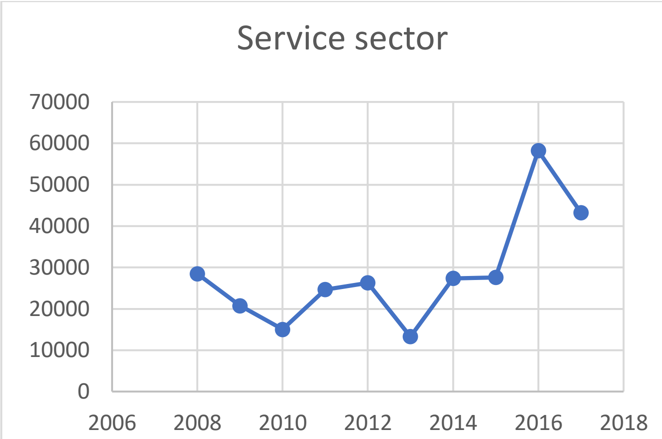
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	6.498	4	1.625	.865	.493
Within Groups	75.113	40	1.878		
Total	81.611	44			

TREND ANALYSIS

A trend analysis on the total foreign direct investment inflow in the country has been studied. The trend concludes that there has been an increase in foreign direct investment. The raise in foreign direct investments has been from 2006 but it boosted from 2012. The reason for the boost is the change in government policy, India emerging as global market and advancing technology. In 2012, Government has increased the foreign direct investment inflow from 51% to 100% in single brand retail whereas in multi brand retail the increase is to 51%. The multi brand retail was restricted to inflow of foreign direct investment in India before 2012.

Service sector:

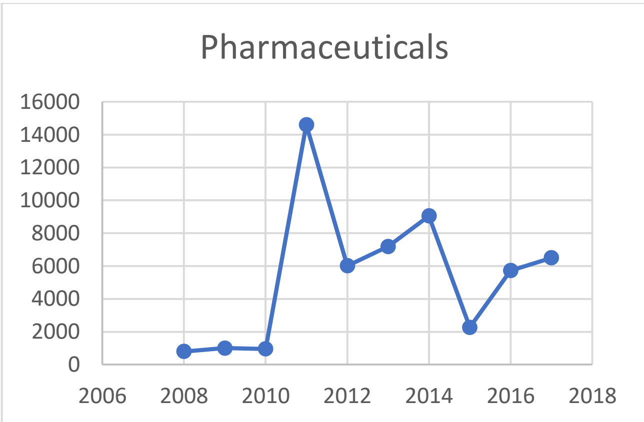
Year	Service sector	Growth
2008	28516	
2009	20776	-37.25%
2010	15,053	-38.02%
2011	24,656	38.95%
2012	26306	6.27%
2013	13,294	-97.88%
2014	27,369	51.43%
2015	27,630	0.94%
2016	58,214	52.54%
2017	43,249	-34.60%



From the above chart, the FDI inflows started growing rapidly in the service sector since 2012 but except for the year 2013. Again, in the year 2014, the FDI inflows grew as the government took steps to improve ease of doing business and attracting investments.

Pharmaceutical sector:

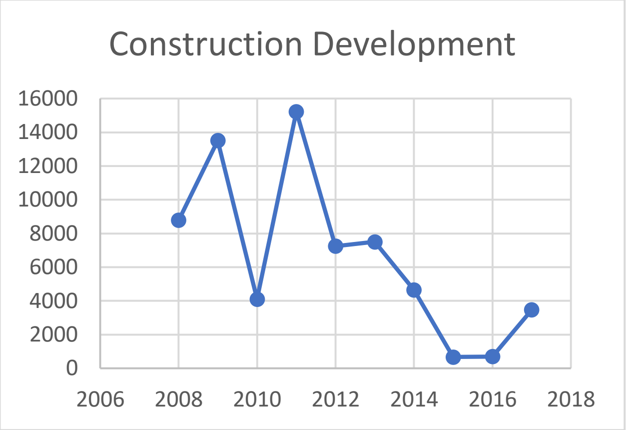
Year	Pharmaceuticals	Growth
2008	800	
2009	1006	20.48%
2010	961	-4.68%
2011	14605	93.42%
2012	6011	-142.97%
2013	7191	16.41%
2014	9052	20.56%
2015	2267	-299.29%
2016	5723	60.39%
2017	6502	11.98%



From the above chart, the FDI inflows in the Pharmaceutical sector has seen a massive growth in the year 2011 but since then has seen a stable growth over the years. The reasons for such stable growth could be the price control and rigid labor laws, weak patent regime. The government with an expectation to increase the FDI inflows into the industry, is hoping to attract more foreign capital with further liberalization of policies.

Construction sector:

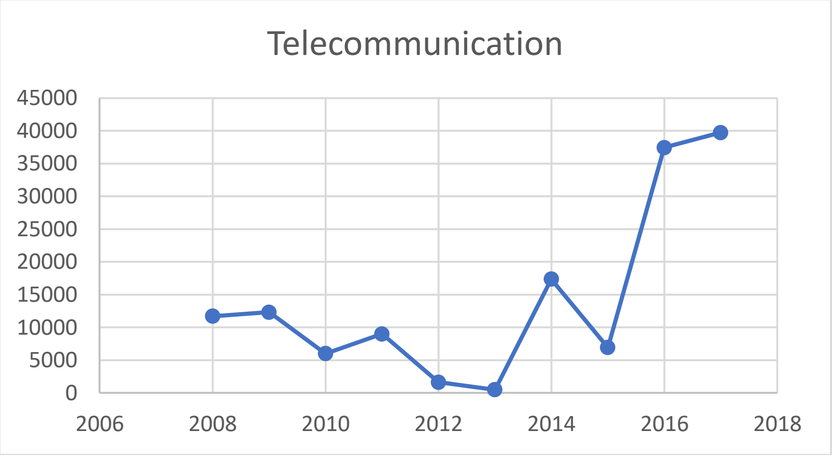
Year	Construction Development	Growth
2008	8792	
2009	13516	34.95%
2010	4109	-228.94%
2011	15236	73.03%
2012	7248	-110.21%
2013	7508	3.46%
2014	4652	-61.39%
2015	673	-591.23%
2016	703	4.27%
2017	3472	79.75%



From the above chart, the FDI inflows in the Construction Industry has seen a massive growth in the years 2009 & 2011 although the government had allowed 100% FDI in this sector since 2005. The reason for massive growth could be the relaxation of certain rules such as reducing minimum built-up area as well as capital requirement and easing the exit norms. The recent decline in the FDI inflows in this sector could be due to cash crunch and demonetization.

Telecommunication sector:

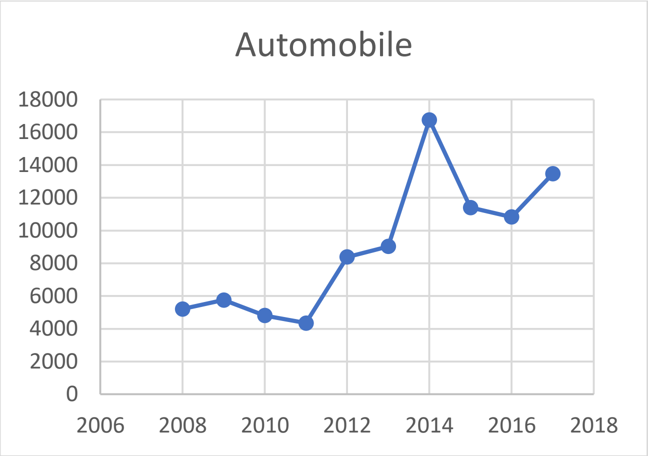
Year	Telecommunication	Growth
2008	11727	
2009	12338	4.95%
2010	6021	104.92%
2011	9012	33.19%
2012	1654	444.86%
2013	502	229.48%
2014	17372	97.11%
2015	6936	150.46%
2016	37435	81.47%
2017	39748	5.82%



The Telecommunication sector has witnessed a sudden growth in the FDI inflows over the past two years. With the rapid growth in technology and introduction of services such as 3G, 4G & 5G and the massive increase in number of users of telecommunication services due to the entry of Reliance JIO, the FDI inflows in the telecommunication sector is destined to grow rapidly in the coming years.

Automobile sector:

Year	Automobile	Growth
2008	5212	
2009	5754	9.42%
2010	4805	-19.75%
2011	4347	-10.54%
2012	8384	48.15%
2013	9027	7.12%
2014	16760	46.14%
2015	11405	-46.95%
2016	10824	-5.37%
2017	13461	19.59%



The automobile sector had witnessed a massive growth in the year 2014 and is growing at a stable rate since then. Since the manufacturing of cars in Japan and South Korea has become costly over the past few years, several automobile companies have opted for shifting their bases in countries like India and China with an intention of getting cheap resources.

V. FINDINGS AND SUGGESTIONS

1. Foreign direct investment has a significant impact on the growth and development of the industry.
2. The FDI inflow in the retail sector has increased during the last 10 years.
3. Through this paper it has been observed that there is no significant growth among the sectors chosen.
4. The analysis has resulted in determining the relationship between the five sectors of the Indian retail industry over a period of 10 years, The changes in FDI distribution among the sectors is normal.

The scope of the paper can be increased by analyzing the other sectors of multi-brand and single brand retail. The tax incentives provided by the government and the tax policies of the countries investing in India can be analysed to understand the restrictions of investing in India.

VI. CONCLUSION

India retail sector has grown by leaps and bounds in the recent years. The growth and employment rates in terms of FDI in form of direct and institutional investment have been increasing at a phenomenal rate. Starting from the colonial period to the modern era, the impact FDI has on the Indian economy has changed tremendously. The changes in the government policies , introduction and adoption of technology, availability of labour and capital have contributed to high performance of the Indian retail industry which in turn has increased the FDI inflow in the country. This has resulted in the diversification, expansion and introduction of various businesses in the retail industry. The amendment of 2012, to allow 51% FDI in multi- brand retail and the recent policy allowing 100% FDI in single brand retail through automatic route has lead to reduced prices and better management of inflation, creation of employment, induced investment and enabled the small and medium enterprise to expand their market. The project enables to understand the role of FDI in the development of the retail sector in the past years. Thus based on the calculations and analysis it is determined that FDI is a great boost to the Indian economy.

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