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Foreign Direct Investment (FDI) in Retail Sector and Its Impact on Indian Economy

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Abstract

The structure of Indian economy has undergone considerable change in the last decade for the influence of Globalization. These include increasing importance of external trade and of external capital inflows. India had accepted globalization and liberalization policy in 1991and FDI inflow started with multi brand in Indian retailing market. FDI or Foreign Direct Investment refers to capital inflows from abroad that are invested in or to enhance the production capacity of the economy. The Government recently announced FDI in retail market; namely 51% in Multi Brand and 100% in Single Brand. The foreign investment has been constantly growing in the retail Sector of Indian economy. The main purpose of the study is to investigate the role of FDI on Indian economic growth and various related issues from 1991 to 2015.

Keywords: Globalization, Liberalization, FDI inflow, Retail market and Economic growth.

1. Introduction

The structure of Indian economy has undergone considerable change in the last decade for the influence of Globalization. The term Globalization describes the process by which the world becomes more deeply inter-correlated in all spheres of its activities. More specially, economic globalization is the process of that interconnection relating to employment, production of goods and services across national boundaries. This process allows for a country to find markets of their products across the world, which will help for the movement of goods, workers and technological knowledge around the world. The globalization policy would help the underdeveloped and developing countries to improve their competitive strength and attain higher growth rates. Such interconnection normally benefits a country and its population in economic expects. During the 90's India witnessed economic crisis of frightening magnitude on account of several factors such as relative low growth rate of exports, declines in foreign remittances, lesser inflow of concessional credit and rise in oil imports bill and withdrawal of funds by NRI's. In such a difficult economic situation, India had accepted globalization policy in 1991, the stabilization and structural adjustment programme under mounting pressure from the IMF and the World Bank. After that Indian economy was opened up for foreign investors and FDI inflow started with multi brand in Indian retailing market from 1991.

The Government of India recently announced FDI in retail market; namely 51% in Multi Brand and 100% in Single Brand. The foreign investment has been constantly growing in the retail Sector of Indian economy. There has been a generous flow of FDI in India since 1991 and it plays a crucial role in enhancing the economic growth and development of the country. Moreover, FDI as a strategic component of investment is needed by India for achieving the objectives of its second generation of economic reforms for maintaining the pace of growth and development of the economy.

2. Objectives

i). To analyze the present trends FDI in Indian retail sector.
ii). To assess the determinants of FDI inflows.
iii). To analyze the impact of FDI and its related issues.

3. Source of Data Collection and Methodology

The descriptive research methodology has been used to collect the data. To evaluate the overall position of the entry of FDI in multi brand retail in India, secondary data has been collected from various published sources and websites from the year 1991 to 2015. The required data has been collected from various sources i.e. World Investment Reports, Asian Development Bank`s Reports, Various Bulletins of Reserve Bank of India, Publications from Ministry of Commerce, Govt. of India that are GYANPRATHA-ACCMAN *Journal of Management*, Volume 5 Issue 1 2013 available on internet. It is a time series data and relevant data have been collected for the period of 1991-2015.The study is limited to a sample of investing countries e.g. Mauritius, Singapore, USA etc. And sectors like service sector, computer hardware and software, telecommunication etc.

4. Foreign Direct Investment in India

Starting from a baseline of less than US$ 1 billion in 1990, a recent UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010-2012. As per the data, the sectors which attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, the US and the UK were among the leading sources of FDI. FDI for 2009-10 at US$ 25.88 billion was lower by five per cent from US$ 27.33 billion in the previous fiscal year. Foreign direct investment in August dipped by about 60 per cent to approx. US$ 34 billion, the lowest in 2010 fiscal, industry department data released showed in the first two months of 2010-11 fiscal. In November 2011, India's central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for retail innovation and competition with multi-brand retailers such as Wal-Mart, Carrefour and Tesco, as well single brand majors such as IKEA, Nike, and Apple. FDI inflow into India was at an all-time high of $7.78 billion up 77% from $4.4 billion during the corresponding period in the previous year India's retail industry is estimated to be worth approximately US$411.28 billion and is still growing, reach to US$804.06 billion in 2015. At present total FDI inflow from 2000-01 to 2014-15 fiscal year reach to US$ 368,439 Million.

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

- **1995:** World trade organization's general agreement on trade in services, which includes both wholesale and retailing services, came into effect.
- **1997:** FDI in cash and carry (wholesale) with 100 present rights allowed under the government approval route.
- **2000:** FDI in cash and carry (wholesale) brought under the automatic route. Up to 51% in single brand retail outlet permitted.
- **2011:** 100% FDI in single brand retail permitted.
- **Union Budget 2012-13:** Efforts on for consensus on 51% FDI in multi-brand retail.

4.1. Data Analysis and Findings

The Government recently announced FDI in retail market; namely 51% in Multi Brand and 100% in Single Brand. The foreign investment has been constantly growing in the retail Sector of Indian economy. The following data tables are related to the trends of FDI and also represent the status of FDI in India for the period of 2001-20.

Table 1: Financial Year-Wise FDI Inflows Data: (Amount US$ million)

Sl. No	Financial Year	Total FDI	% Over Previous Year
1	2000-01	4,029	-
2	2001-02	6,130	(+) 52%
3	2002-03	5,035	(-) 18%
4	2003-04	4,322	(-) 14%
5	2004-05	6,051	(+) 40%
6	2005-06	8,961	(+) 48%
7	2006-07	22,826	(+) 155%
8	2007-08	34,843	(+) 53%
9	2008-09	41,873	(+) 20%
10	2009-10	37,745	(-) 10%
11	2010-11	34,847	(-) 08%
12	2011-12	46,556	(+) 34%
13	2012-13	34,298	(-) 26%
14	2013-14	36,046	(+) 5%
15	2014-15	44,877	(+) 24%
16	2015-16	55,559	(+) 24%
17	2016-17	60,220	(+) 8%
18	2017-18	60,974	(+) 1.3%
19	2018-19	62,001	(+) 2%
20	2019-20	74,390	(+) 20%
	Cumulative total	6,81,583	---

Source: *RBI's Bulletin for May, 2021 dt.17.05.2021 (Table No. 34 – FOREIGN INVESTMENT INFLOWS).*

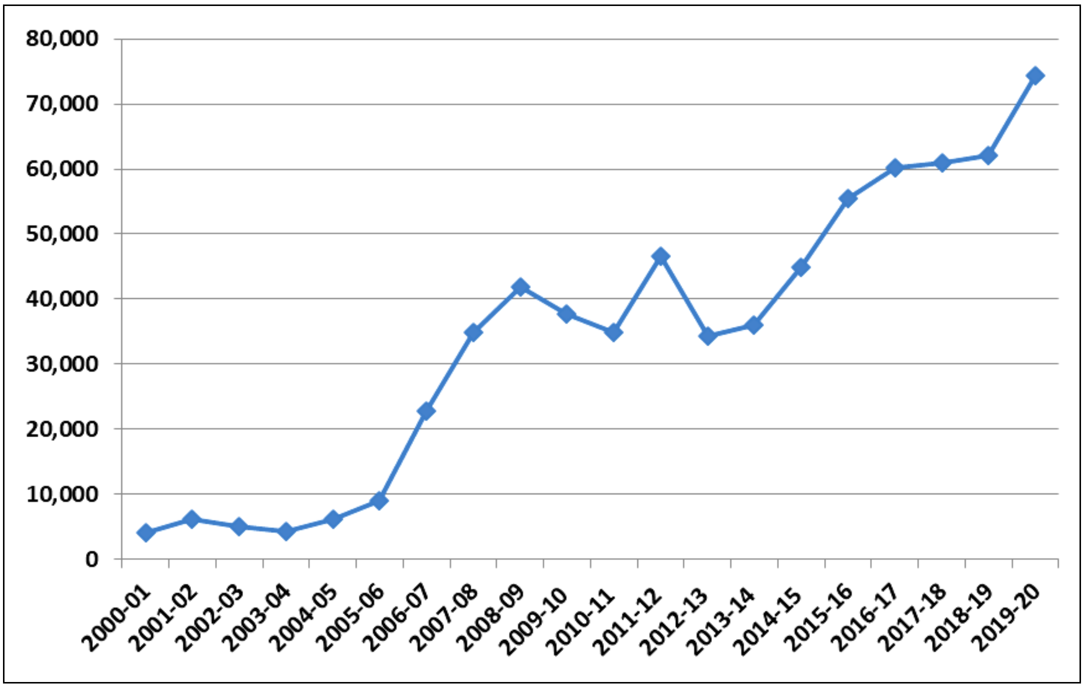

Fig 1: Financial Year-Wise FDI Inflows Data.

Table 2: Share of Top Investing Countries FDI Equity Inflows *(Financial years): Amount Rupees in US$ in million*

Country	2016-17	2017-18	2018-19	2019-20	2020-21	Cumulative Inflows	% to Total Inflows
Singapore	6,529	9,273	14,632	12,612	15,908	58,954	33%
Mauritius	13,383	13,415	6,570	7,498	4,491	45,357	25%
U.S.A.	2,138	1,973	2,823	3,401	13,204	23,539	13%
Netherlands	3,234	2,677	2,519	5,295	2,138	15,863	9%
Japan	4,237	1,313	2,745	2,308	1,794	12,397	7%
Cyprus	49	1,140	863	3,496	2,558	8,106	5%
U.K.	1,301	716	1,211	1,125	779	5,132	3%
Germany	845	1,095	817	443	626	3,826	2%
France	487	403	375	1,167	810	3,242	1.5%
UAE	487	403	375	1,167	810	3,242	1.5%
Total	32,690	32,408	32,920	38,512	43,118	179,658	100%

**Includes inflows under NRI Schemes of RBI.*
Note: (i) Cumulative country-wise FDI equity inflows (from April, 2016 to March, 2021)

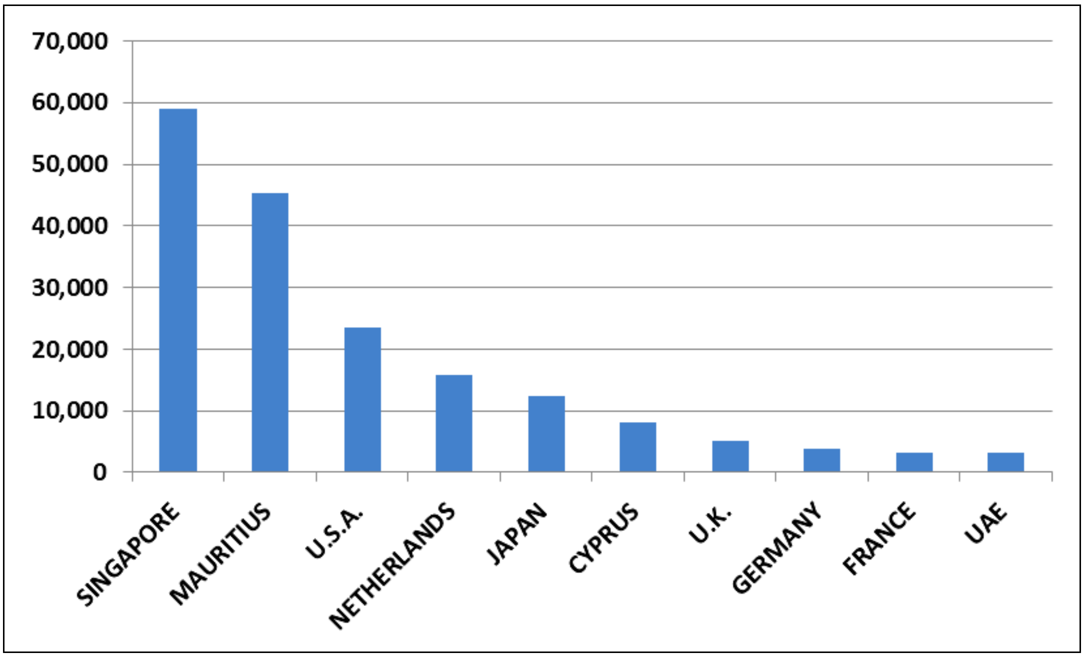

Fig 2: Share of Top Investing Countries FDI Equity Inflows.

Table 3: Sectors Attracting Highest FDI Equity Inflows: *Amount in US$ in million*

Sectors:	2013-14	2014-15	2015-16	2016-17	2017-18	Total	Cumulative percentage
Manufacturing	6,381	9,613	8,439	11,972	7,066	43471	29%
Communication Services	1,256	1,075	2,638	5,876	8,809	19654	14%
Financial Services	1,026	3,075	3,547	3,732	4,070	15450	11%
Retail & Wholesale	1,139	2,551	3,998	2,771	4,478	14937	10%
Computer Services	934	2,154	4,319	1,937	3,173	12517	8%
Business services	521	680	3,031	2,684	3,005	9921	7%
Construction	1,276	1,640	4,141	1,564	1,281	9902	7%
Electricity and other energy Generation	1,284	1,284	1,364	1,722	1,870	7524	5%
Miscellaneous Services	941	586	1,022	1,816	835	5200	4%
Transport	311	482	1,363	891	1,267	4314	3%
Restaurants and Hotels	361	686	889	430	452	2818	2%
Education, Research & Development	107	131	394	205	347	1184	1%
Real Estate Activities	201	202	112	105	405	1025	1%
Total	15738	24159	35257	35705	37058	147917	100%

Note: *(i) ** Services sector includes Financial, Banking, Insurance, Non-Financial/Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis.*

The trend of FDI inflow in India is upward, which shown in table-1. FDI inflow was US$ 4,029 million in 2000-01 financial years, but it was rose to US$ 34,843million in 2007-08. Further it rose to US$ 44,877 million in 2014-15 and 74,390 million in 2019-20 financial years. The total FDI inflow was US$ 6, 81,583million from 2001 to 2020. Top three FDI investing countries to India are Mauritius, Singapore and U.S. A. They alone contributed more than 70% FDI inflow to India, which shown in table-2. When we observe sector wise FDI equity inflow then sees that manufacturing, communication services, financial services were highest contributor about 54% of total FDI inflow to India shown in table-3.

4.2. Positive effects of FDI

There has been a generous flow of FDI in India since 1991 and it plays a crucial role in enhancing the economic growth and development of the country for following grounds.

- Due to continued economic liberalization since 1991, India has seen a decade of 7 plus percent of economic growth. In fact, India`s economy has been growing more than 9 percent for three consecutive years since 2007 which make country make a proficient performer among global economies.
- At present India is the 4th largest and 2nd fastest growing economy in the world. It is the 11th largest economy in terms of industrial output and has the 3rd largest pool of scientific and technical manpower.
- It can bring about an improvement in the supply chain infrastructure, investment in technology, up-gradation in agriculture, manpower and skill development and may also lead to an improvement in the overall productivity
- It improved income of the farmer through the removal of structural inefficiencies. Farmers were found to benefit significantly from the option of direct sales to organized retailers. For instance, the profit realization for farmers selling directly to the organized retailers is expected to be much higher than that received from selling in the mandis.
- India has considerably decreased its fiscal deficit form 4.3% in 2002-03 to 2.7% in 2007- 08 and 1.15 in 2009-10 fiscal years, further it rose to 4.5% in 2013-14.
- It benefited to customers in the form of better quality of products and lower prices. Past trends indicate that by and large consumers have benefited from organized retail in the domestic market.
- FDI plays a crucial role in enhancing the economic growth and development of the country. Moreover, FDI as a strategic component of investment is needed by India for achieving the objectives of its second generation of economic reforms and maintaining the pace of growth and development of the economy

4.3. Negative Effects of FDI

Major adverse effects which have been expressed with regard to opening of the FDI in Indian retail sector.

- May lead to unemployment**-** The retail sector in India is the second largest employer after agriculture. In 2007-08, retail trade employed 7.2 percent of total workers and provided job opportunities to 33.1 million persons. It may also lead to unfair competition and result in large-scale exit of domestic retailers, especially the small family managed outlets, leading to large scale displacement of persons employed in the retail sector.
- Threat to the organized retailer in the domestic sector. The Indian retail sector, particularly organized retail, is still underdeveloped and therefore it is important that the domestic retail sector is allowed to grow and consolidate first, before opening this sector to foreign investors.
- FDI tends to act as a catalyst for underlying strengths and weaknesses in the host economy, bringing to the fore both its advantages and its problems.
- FDI-induced economic change may produce some adverse distributional and employment effects in the host country. Both categories of problems should be temporary, but they can be prolonged and aggravated in the absence of appropriate policy responses.

5. Suggestion

- Sustaining the growth momentum and achieving an annual average growth of 9% to 10% in the next five years for India.
- Providing friendly laws and tax system to encourage domestic investors.
- Allowing foreign direct investment in more areas.
- The product categories where it can create total threat;

FDI should be encouraged in the form of Joint Venture only.

- Expanding industry fast, by at least 10% per year to mobilize surplus labor from agriculture sector to industrial sector to reduce excessive pressure of labor on agriculture.
- Developing world-class infrastructure for sustaining growth in all the sectors of the economy.
- Effecting fiscal consolidation and eliminating the revenue deficit through revenue enhancement an expenditure management.
- Boosting agricultural growth through diversification and development of agro processing.

6. Conclusion

Even FDI has positive and negative effects on India economy; government should encourage foreign investors for continuous forecast of Indian GDP growth rate. Government should encourage FDI on gradual basis like currently it is allowed for single brand and later allowed for multi brand. Product category wise clauses should be developed to allow FDI. The inflow FDI in Indian economy aims to attain overall development of the country. But only growth of the GDP and others at the macro level in billions does not solve the chronic poverty and backward level of living norms of the people at the micro level until and unless the growth is not sustained with human development and decent employment potential. The welfare of a country does not percolate from the top, but should be built upon development from the bottom.

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