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FDI AND ECONOMIC GROWTH IN INDIAN RETAIL SECTOR

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Abstract

The growth of organized retailing in India has been much slower as compared to rest of the world. The retail business contributes around Eleven percent of GDP. Of this, the organized retail sector accounts only for about three percent share and the remaining share is contributed by the unorganized sector which is mostly a family owned business in India. Undoubtedly, this dismal situation of the organized retail sector, despite the ongoing wave of incessant liberalization and globalization, stems from the absence of an FDI encouraging policy in the Indian retail sector. Foreign Direct Investment (FDI) is the barometer of a nation's prosperity. Hence countries try to create favorable conditions to attract more FDI inflows into their economies. In 2012, the Government of India introduced two key reforms aimed at allowing greater foreign direct investment into the Indian retail sector. The delineation between single-brand and multi-brand retail, present for many years, was maintained the former aimed at businesses that sell only their own goods to consumers whilst the latter was effectively concerned with addressing the opening of foreign owned supermarkets in India. FDI was liberalized in both sub-sectors but to differing degrees. In this context, the present paper attempts to understand the importance of Foreign Direct Investment in the Indian retail industry. It also examines the positive and negative arguments regarding FDI in retail sector.

Key words: - Foreign Direct Investment, retail sector, globalization.

INTRODUCTION

Retailing is a highly organized business and it is a people oriented business with a passion to win and sustain competitive advantage. Indian retail industry is one of the sunrise sectors with huge growth potential and it provide new opportunities and challenges. Retailing in India is one of the pillars of its economy. However, the recent developments in retailing and its immense contribution to the economy, retailing continues to be the least evolved industries. It is a set of business activities which adds value to the products and services sold to the consumers for their family or personal use.

In India, the retail industry is both in the organized sectors as well as in the unorganized sectors. Organized Retailing is the trading activities undertaken by licensed retailers i.e., those who are registered for sales tax, income tax etc. The dismal situation of the retail sector, despite the ongoing wave of incessant Liberalization and Globalization, seems from the absence of an FDI encouraging policy in the Indian retail sector. Foreign Direct investment (FDI) is any direct investment by a company in production located in another country either by buying a company in the country or by expanding operation of an existing business in the country. It acts as a long term source of capital as well as a source of advanced and developed technologies. The investors also bring along best global practices of management. As large amount of capital comes in through these investments more and more industries are set up. This helps in increasing employment. FDI also helps in promoting international trade. This investment is a non-debt, non-volatile investment and returns received on these are generally spent on the host country itself thus helping in the development of the country.

In Retailing, 51 per cent FDI is allowed in single brand retail through the Government Approval route while 100 per cent FDI is allowed in the cash-and-carry (wholesale) formats under the Automatic route. a) Foreign Direct Investment in Multi Brand Retail Trading (MBRT) was prohibited. b) Foreign Direct Investment (FDI) up to 51 per cent, in the Single Brand Retail Trading (SBRT) sector was permitted, under the Government/ Foreign Investment Promotion Board (FIPB) route, subject to the following conditions: i) Products to be sold should be of a 'Single Brand' only. ii)

Products should be sold under the same brand internationally. iii) It would cover only products which are branded during manufacturing. iv)The foreign investor should be the owner of the brand. c) Government allowed 100 per cent FDI in single brand retail with a rider that foreign brands would mandatorily have to source 30 per cent of their requirements from Small and Medium Enterprises.

FDI is significant for employment generation and improving its productivity. It brings to the recipient country not only foreign capital but also efficient management, superior technology and innovations in products and marketing technique. The increased inflow of foreign funds into the developing countries like India is expected to act as catalyst of economic growth.

OBJECTIVE OF THE STUDY

Objectives of the study are;

- To understand the significance of Foreign Direct Investment in the Indian retail industry.
- To examine the positive and negative arguments regarding FDI in retail sector.

REVIEW OF LITERATURE

A brief review of the earlier studies would help the present study are as follows;

Chintrakarn (2012) made an attempt to study on Foreign Direct Investment and Income Distribution. It found that FDI exerted a significant and robust negative effect on income inequality in the United States, but with much heterogeneity across states. It concluded that the uncertain empirical evidence may be suggestive of nonlinearity in the link between FDI and inequality.

Narayana (2012) explained that one of the major concerns of planners and policy makers in India is attracting more and more Foreign Direct Investment. It analyzed the Foreign Direct Investment and its flows into India. It highlighted that the basic constraints to investment in general and Foreign Direct Investment in particular.

Boopath (2013) studied about the foreign direct investment. It revealed that the press council of India has commented on synergic alliance or equity participation by way of foreign direct investment. The council opined that foreign direct investment should be allowed to break or halt the growing monopoly of a few media giants in India who offer uneven playground and unhealthy competition to small and medium papers.

Jampala, Lakshmi and Srinivasa (2013) conducted a study on the inflows of Foreign Direct Investment into India in the Post-reforms Period. It concluded that as far as the economic interpretation of the model is concerned, the size of domestic market is positively related to Foreign Direct Investment and greater the market, the more customers and more opportunities to invest.

Pradeep (2013) studied on Foreign Direct Investment in India. It emphasized that investment or creation of capital is an important determinant of economic growth. The study revealed that foreign investment can reduce domestic savings gap. Hence, notwithstanding the domestic savings gap, economic growth can be increased in an open economy with inflow of foreign investment. The foreign investment in India would stimulate the domestic investments. The foreign investments are complementary to economic growth and development in developing countries like India. Investment in an economy raises output and improves standard of living of the people. It concluded that in case of Foreign Direct Investment (FDI), the private foreign investor either sets up a branch or a subsidiary in the recipient country. In the liberalized environment as economics become increasingly open and trade between countries expand, financial transactions become global through financing trade of goods and services. Capital is the engine of economic development and this statement is gaining importance in the recent times.

Hyungsun and Miguel (2017) conducted a study on inequality of Foreign Direct Investment in Southeast Asia. It aims to investigate the relationship between FDI inflows and FDI stock on income distribution for seven Southeast Asia countries consists of Cambodia, Indonesia, Laos, Malaysia, Philippines, Thailand, and Vietnam. The main outcome generated from the study is that higher FDI inflows will worsen income equality in this group of countries and the square term of FDI stock, on the other hand, found to be noteworthy with according to the expected sign.

FDI IN INDIA

India is the second most important attractive destination for foreign Investors (after china) for transnational corporations during 2010-2012. The sectors dimensions of FDI inflow shows that the sectors such as automobiles, chemicals, food processing, oil and natural gas, chemicals, power, services and tele-communication have attracted considerable investments. FDI is any investment made by the foreign companies or foreign government in India. It is mainly dealing with monetary matters. FDI is a popular mode of entering in another country's economy. It is made by foreign countries in order to established wholly owned companies or to manage them or to purchase shares of companies in another country. It can be of two types; horizontal and vertical. In horizontal, the investment in same type of industry and in vertical the financial collaboration with market unit or suppliers of input in that country.

Foreign direct investment is perceived as a means of enhancing trade, productivity and economic restructuring in a nation thereby leading to competitive advantage for any nation. FDI typically helps in strengthening local assets, resources and capabilities. The Rangarajan Committee was recommended a switch from debt creating capital flows to non-debt creating capital flows like Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI). The opening up of the Indian economy to foreign investment from 1991 led to massive capital flows into the country.

In recent years, FDI acts as a provider of technology and as a supplier of managerial skills and marketing channels in addition to the traditional roles of supplementing domestic savings and relaxing the foreign exchange constraints. The rationale for the more transparent policy on FDI can be traced to at least three reasons: a) FDI would bring attendant advantages of technology transfer, marketing expertise and introduction of modern managerial techniques. b) FDI would bring in new possibilities for promotion of exports and c) FDI would attract substantial investment. It take advantage of cheaper wages in the country and special investment privileges such as tax exemptions offered by the country, to gain tariff- free access to the markets of the country or the region.

Advantages of FDI

Important advantages of FDI are stated below;

- FDI helps to increases the investment level and there by the income and employment in the host country.
- FDI facilitates transfer of technology to the recipient country.
- FDI make managerial revolution in the recipient country through professional management.
- Foreign capital may enable the country to increase its exports and reduce import requirements.
- Foreign investment may also help to increase competition and break domestic monopolies.

Disadvantages of FDI

The following criticisms are against FDI;

- FDI tends to flow to the high profit area rather than the priority sector.
- Foreign investors sometimes engage in unfair and unethical trade practices.
- Foreign capital sometimes interferes in the national policies.
- Foreign investments sometimes, have unfavorable effect on the balance of payments.
- The technologies brought in by the foreign investor may not be adapted to the consumption needs, size of the domestic market, resource availabilities, stage of the development of the economy etc

REASONS FOR GLOBALIZATION OF RETAILING

- Supply and demand side factors
- Saturated domestic market
- Convergence of taste

- High competition in domestic market leading to lower profits.
- Need to set up global sourcing networks and supply chain.
- Liberalization- Removal of FDI and other barriers in developing countries.
- Rapid urbanization, improvement in infrastructure, increase in per capita income and purchasing power, entry of women into workforce etc in developing countries.
- Impact on developing countries

FDI IN RETAILING – POSITIVE AND NEGATIVE ARGUMENTS

Employment:

The supporters of FDI in retail sector argue that job opportunities in areas like marketing, agro-processing, packaging, transportation etc will be created. But it criticized that flase claims of unemployment; the most favoring point in multibrand retailing is that it will produce employment for one crore people by 2020. There is no ultimate evidence behind disclaim. The irony is that India’s total retail industry worth twenty lakh crore and is employed with forty crore it clear from this perspective that India’s retail sector is much promising employment provider.

Economy:

Supporters argue Farmers will get a good price for their crops and their exploitation will stop. But it actually upset the import balance, as large international retailers may prefer to source majority of their products globally rather than investing in local products. Initially they often sell below cost in the new markets, once the domestic players are wiped out of the market foreign players enjoy a monopoly position which allows them to increase prices of earn profits.

Technology:

Infrastructure facilities, refrigeration technology, transportation etc will be renovated. But actually these big retail giants are very particular and predefined about their operations, they would require very less amount of creativity from the Franchisee’s side which can hurt country's entrepreneurial skill.

More middle man:

In FDI foreign companies will also create a supply chain in the India market. Impact of this move is, Modern intermediates like quality controller, certification agencies, packaging, adviser etc are the important organ of retail industry and participants in farmers incomes are suffer. Manufacturing sectors accounts for thirty per cent of India. So if the big foreign giants start out sourcing the goods from their own countries, the manufacturing sector of India will be affected adversely.

CONCLUSION

Retailing in India is one of the pillars of the economy. After liberalization of FDI in retail policy in 2006, India saw an influx of many foreign brands.In 2012, the government announced 100 per cent FDI in single brand retail and many foreign retailers are expected to open shop in the near future. The future of foreign retail players is uncertain like that of Indian retail players. The government acts better than the one which does not. Apprehensions were raised on many such occasions in the past on virtually every measures of liberalization of Indian economy but most of the apprehensions proved wrong while many others come true. It is better to act and watch than not to act at all.

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