The Academic
International Journal of Multidisciplinary Research

An Online Peer Reviewed / Refereed Journal
Volume 2 | Issue 4 | April 2024
ISSN: 2583-973X (Online)
Website: www.theacademic.in

Prospects and Problems of FDI in Indian Retail Sector

Dr. Kapil Meena
Assistant Professor, Department of Economics, School of Arts, Humanities & Social Sciences, Nirwan University Jaipur, Email: Kapilmeena32@gmail.com

ARTICLE DETAILS
Research Paper

Keywords :
FDI, WTO, Indian retail sector, Impact on Stakeholders

ABSTRACT

The nation's development relies significantly on foreign direct investment. In the holistic context of a nation's progress, domestic capital sometimes falls short. Leveraging foreign capital is deemed beneficial in bridging the gap between domestic savings and investment. To this end, the Indian government endorsed a 51% allowance for FDI in Multiband retail and revised it to 100% in Single Brand retail sectors via the Government Route, effective from September 20th, 2012, albeit subject to specific conditions. Despite facing opposition and protests from certain national and regional political factions, the government remains resolute in its commitment to implementing FDI in multi-brand retail, in alignment with WTO agreements. Nonetheless, differing viewpoints among states persist regarding FDI in the retail sector, with concerns raised about its potential adverse impacts on local retailers. Over the past three decades, FDI has emerged as a pivotal force driving the advancement of both developed and developing nations, fostering technological innovations, and enhancing managerial competencies across various sectors. As India undergoes modernization, with heightened purchasing power and a surge in consumerism, FDI in the retail sector is expected to broaden markets and bring advantages to both consumers and suppliers. On the other hand, fierce opponents have expressed worries about possible job losses, fierce competition among domestic organised merchants that could drive small retailers out of the market, and the distorting of urban cultural dynamics. This research aims to provide a thorough analysis of the Indian retail market, identify areas where Foreign Direct Investment (FDI) could be expanded, and address the main issues facing the sector.

Introduction

India is emerging as a significant frontier for worldwide the retail sector. Almost twenty years after liberalisation of the economy in 1991, the middle income class in India has increased considerably, enhancing the country's purchasing power noticeably. Despite this, India has been relatively cautious compared to other emerging economies when it comes to opening up its retail sector to foreign investment. Nonetheless, there are signs that international supermarket chains like Shoprite (South Africa), Tesco (United Kingdom), Marks & Spencer, Carrefour (France), and Wal-Mart (United States) may soon be permitted to open stores in India. Foreign Direct Investment offers a mutually advantageous opportunity for both host and home countries. Home countries seek to tap into the expansive markets generated by industrial growth, while host countries aim to gain access to technological and managerial expertise, supplement domestic savings, and strengthen foreign exchange reserves. Developing nations, in particular, view FDI as a solution to various resource deficiencies, including financial, capital, entrepreneurial, and technological expertise, as well as access to foreign markets, thereby promoting economic development.

The dynamics of the retail sector in India have been propelled by economic growth, rising purchasing power, burgeoning consumerism, and the proliferation of brands. With the ongoing expansion of the economy, per capita income sees an uptick, prompting a shift in consumer spending habits from essential items towards discretionary goods. Furthermore, the liberalization and globalization of the economy have enticed a multitude of international brands, enriching consumer awareness and fostering exploration of a wide array of products. The government began to loosen regulations governing retail in 2006, allowing for a maximum of 51 percent of Foreign Direct Investment (FDI) to go through single-brand retail channels. There has since been a steady increase in foreign direct investment (FDI) in the retail industry, which resulted in total FDI in single-brand retail reaching $195 million by mid-2010. A significant amount of foreign capital has been brought into India as a result of the broad liberalisation and deregulation of the financial markets, international mergers and acquisitions (M&As), and developments in contemporary computer and telecommunication networks. This surge in capital inflows, particularly in the form of private investments, has been particularly pronounced over the last two decades. Foreign retail stores and domestic firms have been attracted to make investments in the rapidly developing Indian market. Many foreign companies have entered the Indian market as a result of the strong growth of the retail sector in India. According to projections made by the Indian Investment Commission, the retail industry will nearly triple in size to $660 billion by 2015. Opposition to FDI liberalisation in this sector, however, is based on concerns about the potential of job losses, the emergence of unhealthy competition among domestically organised outlets that might crowd out smaller players, and a potential distortion of urban cultural development.

India pledged to open up its retail trade sector to international business when it signed the World Trade Organization's General Agreement on Trade in Services. At first, there were anxieties about how this policy change may affect things like employment losses, reliance on foreign procurement, increased competition, and fewer prospects for entrepreneurship. However, the government gradually implemented policies to promote foreign direct investment (FDI) in the retail sector. In 1997, FDI with 100% ownership in cash and carry (wholesale) operations was permitted under the government approval system. The automatic method took over in 2006. In addition, the government approved a 51% investment in single-brand retail establishments in 2006. Still, foreign direct investment (FDI) in multi-brand retailing is prohibited in India.

Review of Literature

Mukherjee and Patel (2005) noted that international merchants are forming joint ventures with small manufacturers to produce labels internally, while also offering technology support in the form of barcoding and packaging technologies. The advent of multinational retailers has led to a noticeable increase in sourcing from India, and these retailers are also putting in place more efficient supply chain management systems. The Indian retail sector is able to obtain funding and implement international best practices thanks to partnerships with overseas merchants. Furthermore, since retailing is an untradable service, foreign investment—rather than import competition—is the route to increased efficiency.

M. Joseph and N. Soundararajan (2009) highlighted included the conclusion that just 1.7% of small businesses closed as a result of organised retail competition. These small retailers have successfully used better business procedures and technology to compete with organised retail. Since the advantages of ownership are transferred to locally owned businesses, increasing their productivity, foreign direct investment (FDI) has shown to have favourable knock-on effects on the economy. In India, FDI has been highly acknowledged for its benefits in a number of industries, including consumer electronics, telecommunications, and autos.

Dikshit (2011) conducted a study on India's retail and logistics sector, a significant employer with approximately 40 million workers. The retail industry in India is primarily composed of small owner-operated shops. Larger format supermarkets and convenience stores accounted for only 4% of the industry in 2010; they were mostly centred in metropolitan cities. The Indian central government forbade foreign direct investment (FDI) in multi-brand retail until 2011, which meant that foreign companies could not own supermarkets, convenience stores, or any other type of retail establishment.

Sharma and Sahu (2012) looked at the January 2012 legislation that required single-brand retailers to get 30% of their merchandise from India. Nonetheless, these changes promoted competition and innovation by enabling international merchants to fully own and operate in the Indian retail sector.

Sharma and Jain (2015) provide an analysis of the advantages and challenges associated with Foreign Direct Investment (FDI) in the Indian retail sector. Their study explores FDI's potential to drive market expansion, technological progress, and job creation, while also addressing concerns about market dominance, the displacement of small retailers, and regulatory issues.

Mishra and Patnaik (2016) delve into the complex challenges and prospects associated with Foreign Direct Investment (FDI) in the Indian retail sector. By analyzing regulatory frameworks, market dynamics, and consumer behavior, they assess the potential advantages of FDI while addressing concerns regarding the survival of small retailers, job creation, and cultural influences.

Srivastava (2017) conducts a thorough examination of FDI trends, policies, and obstacles in the Indian retail industry. By synthesizing existing literature, the study explores the factors driving FDI inflows, regulatory frameworks, and the socio-economic impacts of FDI on various stakeholders. This comprehensive approach offers a nuanced understanding of the subject matter.

Singh and Kaur (2019) present an empirical evaluation of the opportunities and challenges confronted by FDI in the Indian retail sector. Utilizing quantitative methodologies, their research assesses the effects of FDI on market competitiveness, consumer welfare, and employment patterns. Furthermore, it provides insights into policy implications and the regulatory environment.

Objective of the Study

The aim of this study is to examine India's current retail environment. This work makes use of analytical reasoning, statistical comparison analysis, and descriptive arguments that are based on information gleaned from a variety of sources, such as books, journals, newspapers, research papers, reports, and internet databases.

Finding and Interpretation

Foreign Direct Investment (FDI) in India's retail sector has sparked significant debate and witnessed policy evolution over recent decades. Traditionally, India enforced stringent regulations on FDI in retail, particularly in multi-brand retailing, citing concerns about its potential repercussions on local enterprises and employment. However, the gradual liberalization of India's economy since the early 1990s has spurred several reforms aimed at attracting foreign investment across diverse sectors, including retail. The discourse surrounding FDI in retail intensified in the early 2000s as global retail giants eyed entry into the Indian market. This prompted discussions on the potential benefits of FDI, such as modernizing supply chains, bolstering infrastructure, and enriching consumer options, alongside concerns about its impact on traditional small businesses and the livelihoods of local retailers.

As India grapples with the intricacies of Foreign Direct Investment (FDI) in the retail sector, policymakers encounter the daunting task of harmonizing the interests of diverse stakeholders while propelling economic growth and development. The historical backdrop of FDI in India's retail sector underscores a dynamic interplay among regulatory frameworks, market dynamics, and socio-economic factors. Advocates contend that FDI can inject vital investment, technology, and efficiency into the retail landscape, while opponents voice concerns about its potential to disrupt local markets, exacerbate income inequality, and undermine traditional livelihoods. Against this backdrop, the evolution of FDI policies in India's retail sector reflects a delicate balancing act aimed at maximizing the benefits of foreign investment while mitigating its adverse effects on domestic enterprises and communities. India has started the process of liberalising its single-brand retail sector, opening it up to 100% foreign investment. However, there are still legal and regulatory issues that businesses must take care of in order to open stores in this developing market. With a current valuation of about US$411.28 billion, the Indian retail industry is expected to grow to US$804.06 billion by 2015As part of a larger economic liberalisation initiated by the Industrial Policy of 1991, the Indian government has gradually opened up the retail sector to Foreign Direct Investment (FDI) through a variety of measures. The 1995 General

Agreement on Trade in Services of the World Trade Organisation covered wholesale and retail services. In 1997, the government approved the allowance of Foreign Direct Investment (FDI) in cash and carry (wholesale) operations with 100% ownership. The automated route took the role of the government approval process in 2006. Moreover, in 2006, a single-brand retail location might invest up to 51% of its total capital. But it wasn't until 2011 that 100% FDI in single-brand retail was permitted. A number of political considerations at play at the time prevented foreign direct investment (FDI) in multi-brand

Indian Retail Industry's present scenario

The retail industry in India is currently experiencing significant changes as a result of both rapid growth and changing consumer tastes. Single Brand Retailing and Multi Brand Retailing are the two main retail segments that make up India's Foreign Direct Investment (FDI) landscape. Our analysis focuses on the investment climate within this sector, covering various aspects such as investment strategies, expansion initiatives, mergers, acquisitions, and partnership ventures. The competitive landscape section offers a comprehensive overview of the market's dynamics, providing detailed profiles of key players. It begins with a matrix outlining the diverse retail formats operated by these players in India. Additionally, bubble charts are incorporated to visually represent the relative market positions of both public and private companies, considering factors such as total income, net profit/loss, market capitalization (for public companies), and total assets (for private companies).

The data presented in Table 1 from the Department of Industrial Policy and Promotion (DIPP) indicates fluctuations in Foreign Direct Investment (FDI) inflows into India over the years. In the fiscal year 2000-01, FDI stood at US$ 4029 million, increasing to US$ 6130 million in 2001-02, marking a growth rate of 52%. However, the subsequent years, 2002-03 and 2003-04, saw declines in FDI with investments amounting to US$ 5035 million and US$ 4322 million, experiencing negative growth rates of 18% and 14% respectively. These downturns were largely attributed to the global repercussions of the 9/11 terrorist attacks, which triggered a bearish sentiment in stock markets worldwide, including India.

Table-1 Inflows of Foreign Direct Investment (FDI) into India (April 2000–Dec 2022).

S. No.	Financial Year	FDI Flows in India		% Growth
		(in Rs. Crore)	(US $ Million)	(US $Million)
1	2000-2001	10733	4029	-
2	2001-2002	18654	6130	(+) 52%
3	2002-2003	12871	5035	(-) 18%

4	2003-2004	10064	4322	(-) 14%
5	2004-2005	14653	6051	(+) 40%
6	2005-2006	24584	8961	(+) 48%
7	2006-2007	56390	22826	(+) 146%
8	2007-2008	98642	34843	(+) 53%
9	2008-2009	142829	41873	(+) 20%
10	2009-2010	123120	37745	(-) 10%
11	2010-2011	88520	34847	(-) 08%
12	2011-2012	173947	46553	(+) 34%
13	2012-2013	121907	22423	(-) 36%
14	2013-2014	48830	8461	(+) 8%
15	2014-2015	189107	30931	(+) 27%
16	2015-2016	262322	40001	(+) 29%
17	2016-2017	291696	43478	(+) 9%
18	2017-2018	288889	44857	(+) 3%
19	2018-2019	309867	44366	(-)1%
20	2019-2020	353558	49977	(+)13%
21	2020-2021	442569	59636	(+)19%
22	2021-2022	4,37,188	58773	(-) 1%

Source: *Department of Industrial Policy & Promotion (DIPP) Fact sheet up dated up to June 2022.*

The recovery began in 2004-2005 and 2005-2006, witnessing growth rates of 40% and 48%, respectively, with FDI reaching US$ 6051 million and US$ 8961 million. Notably, in 2006-2007, there was a remarkable surge in FDI, recording a growth rate of 146% and investments amounting to US$ 22826 million, indicative of robust growth in the Indian economy during that period. This positive trend continued into 2007-2008, with FDI inflows reaching US$ 34835 million and a growth rate of 53%. However, the global financial recession led to a decline in growth rates in 2008-2009 and 2009-2010, with negative growth rates of -20% and -8% respectively, though India fared comparatively better than many other nations. Despite the setbacks, there was a rebound in 2011-12, with a growth rate of 34% and FDI reaching US$ 46553 million. The table also indicates a mixed pattern of positive and negative growth in FDI inflows over the years, with the highest growth observed in 2006-07 and the highest negative growth in 2012-13.

Table 2 Global Retail Development Index (GRDI 2012) and position of India

Country	2012 Rank	2011 Rank	Change
Brazil	1	1	0
Chile	2	2	0
China	3	6	+3
Uruguay	4	3	-1
India	5	4	-1
Georgia	6	Unranked	N/A
United Arab Emirates	7	8	+1
Oman	8	Unranked	N/A
Mongolia	9	Unranked	N/A
Peru	10	7	-3

Sources: Euro money, Population Data Bureau, International Monetary Fund, World Bank, World Economoic Forum, Economist Intelligence Unit, Planet Retail: A.T. Kearney analyst.

India emerges as a prominent player in the global retail landscape, attracting substantial attention from international investors and operators. Kearney's 2023 Global Retail Development Index positions India as a frontrunner among 44 markets, with an impressive final score of 66.4 out of 100. Kearney's analysis underscores India's status as a "dynamically expanding modern market," marked by a rising demand for international brands and premium products, particularly noticeable in urban areas and select tier 1 and 4 markets. However, Kearney also acknowledges that, despite its modernization, India's grocery retail sector retains traditional elements. It features a vast network of small shopkeepers catering to a consumer base focused on value brands and competitive pricing. India is the fifth most desirable location for foreign retailers in the vast Indian retail industry, according to a detailed analysis of Table 2 of the Global Retail Development Index (GRDI) 2012. Currently accounting for 8% of the market, the organised retail sector is expected to develop at an astonishing rate of around 30% by 2015—far faster than the 16% growth predicted for the retail market as a whole. Clothes & Apparel leads the organised retail segment in sales with over a third, followed by Food & Grocery and Consumer Electronics. In contrast to other rising economies like China, where retail penetration organised exceeds 20%, India's organised retail segment now shows comparatively low penetration despite this expansion. This data is taken from the World Retail Conference's Global Retail Index report.

FDI's Prospects and Threats for Indian Retail

The liberalisation of the market, the growth of the middle class, and the increasing assertiveness of customers are creating the groundwork for a revolutionary change in the retail scene in India, attracting both foreign and domestic firms. Over the next five years, forecasts indicate that India's retail sector would rise from $200 billion to $300 billion, making it the second largest in the world. The main topic of concern right now is the potential impact of foreign direct investment (FDI) on India's retail sector. Foreign Direct Investment (FDI) in retail is projected to develop manufacturing and production backward connections, which will support domestic retailing and exports, according to a strategy document released by the Department of Industrial strategy and Promotion (DIPP, 2010). According to the World Bank, allowing foreign direct investment into India's retail sector could improve product availability and pricing. Nonetheless, opposition to FDI in multi-brand retail persists, citing concerns about job losses, adverse effects on traditional retail, and heightened imports from more cost-competitive sources like China. Advocates of FDI argue that it would drive technology transfer, streamline supply chain operations, and foster job creation. Key perceived opportunities encompass:

Capital Infusion: FDI presents an opportunity for cash-deficient domestic retailers to bridge the gap in capital requirements, addressing the demand-supply gap. Particularly in developing countries like India, FDI serves as a major source of investment, fostering economic growth, job creation, and knowledge sharing from multinational companies. These investments also contribute to enhancing back-end infrastructure and research and development within the host country.

Improvement in Customer Satisfaction: Organized retail consumers would benefit from a diverse selection of multinational brands within a pleasant shopping environment, featuring spacious product displays, hygiene maintenance, and superior customer service. Many consumers perceive a disparity in product quality between foreign retailers and those sold in the Indian market.

Promotion of Healthy Competition and Inflation Control: Advocates of FDI contend that the entry of multinational corporations would foster intense competition among brands within specific product markets, leading to greater variety, reduced prices, differentiated pricing, and equitable distribution of marketing offers.

Enhancement of Supply Chain Efficiency: FDI can lead to improvements in supply chain and distribution efficiencies, accompanied by capacity building and the adoption of modern technology. This would help mitigate inefficiencies stemming from inadequate storage facilities and logistics investment, thereby reducing food supply chain wastage.

Advancements in Technology and Logistics: The introduction of international retail corporations into India may promote improvements in the handling, grading, processing, and packaging of goods. Furthermore, technological advancements like barcode scanning, electronic billing, and weighing might proliferate. In order to reduce the amount of commodities wasted, modifications to the transportation infrastructure may also be made, such as adding more refrigerated vans and pre-cooling chambers.

Benefits for Farmers: The advent of multi-brand retailing is expected to provide a boost to the food and packaging industry. Despite being a significant producer of fruits and vegetables, India lacks an extensive integrated cold-chain infrastructure. Inadequate storage facilities lead to substantial losses for farmers in terms of both quality and quantity of produce, particularly fruits and vegetables.

Creation of More and Better Employment Opportunities: Foreign companies entering the Indian retail sector are poised to generate numerous employment opportunities while ensuring high-quality standards. This influx of quality jobs can uplift the standard of living and lifestyles of Indian workers, aligning them more closely with those in developed nations.

Key Potential Threats

Critics of FDI argue that liberalization poses a threat to the unorganized retail sector, potentially harming small retailers, farmers, and consumers, while allowing large corporate entities to monopolize the market, impacting pricing and product availability. They argue that FDI could displace unorganised retailers, resulting in livelihood losses, and that India's retail sector is a major employer. The following is a summary of the main dangers facing Indian domestic retailers:

Dominance of Organized Retailers: The infusion of Foreign Direct Investment (FDI) into single-brand retail is foreseen to fortify the organized retail sector, potentially resulting in its dominance over the consumer market. Such dominance may foster unfair competition, ultimately posing a threat to numerous domestic retailers, particularly small family-operated businesses, potentially driving them out of the market.

Rise in Unemployment: India's retail sector has substantial growth potential and is the second-largest employer in the country. Introducing major foreign retailers who source directly from suppliers may result in unemployment not only among frontline retail workers but also among middlemen who currently operate within the industry.

Erosion of Competitive Strength: The Indian retail industry, in particular organised retail, is still in its infancy and has difficulties competing with multinational behemoths. Collaboration with international companies could potentially weaken the competitive position of existing firms, particularly on the global stage.

Cultural Distortion: While FDI in Indian retail may indirectly contribute to the growth of tourism, hospitality, and other industries, it also risks altering Indian cultural norms. The influx of foreign influence could lead to the adoption of inappropriate consumption patterns by the youth, deviating from the country's cultural ethos.

Positive Aspects of FDI in Retail: Increased investments in comprehensive supply chain infrastructure and state-of-the-art cold storage facilities aim to minimize spillage and wastage of agricultural produce during transportation. This leads to better options and offers for consumers, while also stimulating economic growth through trade in a diverse range of international products. The UPA Government forecasts the creation of one million jobs over the next three years and anticipates billions of dollars in investment in the Indian retail market. Additionally, initiatives in FDI are expected to ensure fair prices for agricultural goods, benefiting farmers and related stakeholders.

Negative Aspects of FDI in Retail

The introduction of FDI in India's retail sector will impact approximately 50 million small merchants negatively. There are uncertainties regarding profit distribution and investment ratios, posing challenges for stakeholders. Economically disadvantaged individuals may face future price hikes, and retailers may experience significant losses in both employment and profits. Clear policies on worker safety are lacking, raising concerns about labor conditions. Moreover, there is a risk of increased inflation. Small farmers may not benefit from the FDI policy, and rural areas could remain underserved by foreign players in the retail industry.

Conclusion

In overall, it can be concluded that small merchants won't be replaced; instead, modernization will help them maintain their market positions. Market share losses among unorganised sector retailers will be offset by the growing economy and rising purchasing power. In the farm product supply chain, intermediaries may be displaced in a favourable way at first, but they may find opportunities in the expanding food processing industry, which organised retailing is driving. The negative effects on small merchants could be mitigated by strategic government actions. Direct marketing opportunities for farmers will lead to better prices for their produce. Consumers stand to benefit from increased competition, improved quality, a wider range of branded products, and enticing discount offers. State revenues are expected to increase due to expanded business activity and documented sales. The Indian Competition Commission needs to take proactive measures to stop unfair competition in the retail sector. Retailers who have been forced out of business and workers from the unorganised sector ought to be trained in contemporary trade techniques and given preference when assimilating into the modern trade. Trade of sensitive goods, such as weapons, ammunition, and defence equipment, should be prohibited for foreign companies; an explicit list of prohibited items should be included in the FDI policy.

References

1. Akhter Shahid, EqubalIftekhar (January 2012): "*Organized Retailing in India Challenges and Opportunities"***,** International Journal of Multidisciplinary Research Vol.2 Issue1, ISSN 2231 5780.
2. Bengoa M., Sanchez-Robles B. (2003): *"Foreign direct investment, economic freedom and growth: New evidence from Latin America", European* Journal of Political Economy, 19(3), pp. 529-545.
3. Bianchi C., Ostale E. (2006) *Lessons learned from unsuccessful internationalization attempts: examples of multinational retailers in Chile*. Journal of Business Research, 59, 140–147.
4. Bianchi C., Mena J. (2004): *"Defending the local market: the example of Chilean retailers"*, International Journal of Retail and Distribution Management, 32, 495–504.
5. Chaturvedi, Illa (2011): "*Role of FDI in Economic Development of India: Sectoral Analysis"***,** International Conference on Technology & Business.
6. Dikshit A. (2011): *"The Uneasy Compromise - Indian Retail"*, The Wall Street Journal. FDI in retail: More choices for Consumers, Times of India, Jul 23, 2011Mastermind, pp 37-41.
7. Humphrey J. (2007): *"The supermarket revolution in developing countries: tidal wave or tough competitive struggle?"* Journal of Economic Geography, 7, 433–450.
8. Keshava S. (2011): "*The effect of FDI on India and Chinese Economy", A comparative analysis.*

9. Mukherjee A., Patel N. (2005): *“FDI in Retail Sector: India”* Report published by Indian Council for Research on International Economic Relations (ICRIER).
10. Mridula & Dash Umakant (2008): “*Importance of retail service attributes: A Study on Indian Consumers*”, The Icfaian Journal of Management Research, Vol. V11, No. 2, (Indian customers – retail perspective).
11. Reradon T., and J.A., Berdegue (2007): *“The retail-led transformation of agrifood systems and its implication for development policies”,* A background paper prepared for the World Bank’s World Development Report 2008; Agriculture for development, Rimisp and MSU.
12. Mohammed Nizamuddin (2013): FDI *in Multi Brand Retail and Employment Generation in India* MPRA Paper No. 47622, posted 16. June 2013.