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STUDY ON CURRENT TRENDS OF FDI IN INDIAN ECONOMY REGARDING RETAIL SECTOR

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ABSTRACT

The Indian retail industry is the worlds fifth-largest and the country's largest private sector, accounting for 14 percent of GDP. Our retail sector is highly fragmented, with unorganized retailers controlling 96 percent of the market and organized retailers accounting for the remaining 4%. To sum, they contribute to 8% of the overall employment. India is the second-largest country globally in population and registered high economic growth even during the global recession. Increasing trends in terms of expenditure on consumer goods, most global retail organizations deem India as a promising investment (FDI) destination. After allowing FDI in single and multi-brand retailing, which creates a host of debates from different corners, including opposition political parties. In this background, the present study aims to unearth why the International giant retailers are interested in investing capital in the Indian retail sector, and the study finds out the Need for FDI in the Retail Sector: Prospects and Challenges in Indian Economy and also explore the challenges in FDI at the cost of farmers, retailers, and ultimate consumers.

Keywords: Economy, Retail Sector, FDI, Investment, Unorganized Retailer

INTRODUCTION

FDI and Economy

FDI is the most attractive type of capital flows for emerging economies because the FDI do Not create any debt in the host nation and is not volatile similar to foreign portfolio investment (FPI). FDI is very significant in global trade and economic development. The key to economic development is the transfer and adoption of best practices across borders (Crafts, 2000). FDI is one of the critical factors that influence the transfer of best practices across borders. Most fast-growing countries such as China and Singapore have relied heavily on FDI inflows to accelerate their economic growth. On the other hand, few countries, such as Japan and Korea, have shown economic growth without relying on FDI. Ireland is an example, a relatively advanced economy that has demonstrated economic growth of 8 percent annually for most of the 1990s due to the massive inflow of foreign capital. From the perspective of economic growth and development of the host economy, the role of FDI is significant in the economic transformation of an economy (Klein, Aaron, & Hadjimichael, 2001).

Many nations suffer from the insufficient formation of domestic capital that is required to stimulate economic activities. After significant deliberation and consultation among countries on how to finance development in developing economies, it had been accepted that foreign capital in the form of FDI is one of the stimulants that can supplement domestic capital. The Monterrey Consensus of 2002 has predominantly considered private international capital flow, foreign direct investment, and global financial stability as inputs for national and international development efforts. It is widely accepted by all the nations that FDI is a prominent source of finance for developing countries associated with few potential risks. However, it is argued that the potential dangers of FDI could be minimized with good institutional governance and an efficient regulatory framework.

Monterrey Consensus report (2002) states that FDI is essential due to its ability to transfer required knowledge and latest technology, promote a new variant of jobs, enhance overall productivity, develop competitiveness and entrepreneurship, and ultimately eradicate poverty through economic growth and economic development. The OECD (2002) Report on the role of FDI in development states that FDI can act as an appreciated supplement source of finance with less volatility than external loans and portfolio investments.

- **FDI and Retailing**

India stands the second position in the world in terms of population. Our economy has survived the disturbance period of global recession and even recorded a high growth during that period. The expenditure on consumption has been increasing over the years, indicating a positive sign for the manufacturers/producers who want to arrange their products in the Indian market. As a signatory to the World Trade Organization's (WTO) General Agreement on Trade and Services (GATS), which includes wholesale and retail services, India must allow foreign investment in the retail sector. Retailing is an edge among the manufacture and the consumer of the product. The retailing sector structure in India may be divided into two fragments: unorganized retailing and organized retailing.

Unorganized retailing operates under the traditional costing method, area-specific product dealing but is not listed for sales tax, income tax, etc. Those comprise pavement vendors, hawkers, peddlers, petty shops, Bheeda stalls, handicrafts, etc. Nearly 95% market of retailers is dominated by unorganized retailing in India.

Organized retailing is that sector undertaking their selling activities with a license from the authorities registered for sales tax, income tax, etc. Supermarket, Hypermarket, Retail Chain including the privately owned by sizeable retailing business houses like Reliance Retail Group (RRG), TATA Group, RPG Group, etc., which account for only 4% of retail market share but it has a share of 66% in Japan, 55% in Malaysia, 30% in Indonesia. Retailing in India is the country's largest private sector, accounting for 14 percent to 15 percent of GDP and 8 percent total employment.

Nevertheless, India has a large number of retail shops, only 11 shop outlet units for every 1000 people and these units are tiny in terms of size (217 sq.ft.) a few numbers of persons employed (3-4 persons per unit) and annual business out being \$ 30,000 Further, there is a lack of infrastructure, improper logistics, inefficient supply chain, and inadequate storage facilities and thereby there is a massive waste in terms of food grains, fruits, and vegetables.

THE RETAIL SECTOR IN INDIA

The retail sector in India often hailed as the most promising sunrise sector in the economy, has tremendous potential. Single-brand retailers such as Christian Dior, Louis Vuitton, Gucci, and Tommy Hilfiger entered the Indian market when 51% of FDI was allowed in the sector. Though there has been increasing debate on this issue, in November 2011, the Government of India has delivered a notification allowing the foreigners 100% ownership in the single-brand retail chain. In his Union Budget 2012-2013 speech, the former Finance Minister Pranab Mukherjee announced that efforts were to arrive at a political consensus on allowing 51% FDI in multi-brand retail. FDI in multi-brand retail will go ahead, according to Union Commerce and Industry Minister Anand Sharma. The proposed opening up of the retail sector for the international retailing giants like Wal-Mart, Kmart, Carrefour, and other similar business enterprises had evoked strong protests from different corners, including leaders of a retail trade organization and the opposition party in parliament especially Left Parties.

OBJECTIVES OF THE STUDY

1) To understand the rationale behind allowing FDI in the multi-brand retail sector.
2) To find out why global retailers are interested in investing capital in the Indian retail sector.
3) To make a critical analysis on the prospect of FDI in the retail sector and its challenges in India.

METHODOLOGY

The current study, titled "Need for Foreign Direct Investment in the Retail Sector: Prospects and Challenges in the Indian Economy," is based on secondary data gathered from the Economic Survey of India, the Ministry of Commerce and Industry, RBI Bulletins, leading journals, newspapers, and web portals.

THE RATIONALE BEHIND THE FDI IN THE RETAIL SECTOR IN INDIA

1. Foreign direct investment (FDI) in single-brand and multi-brand retail will pave the way for refining supply chain infrastructure and logistics.
2. It will benefit both consumers and the farmers – reduced cost to consumers and fair price for the agricultural products.
3. It will control inflation
4. It will create more employment opportunities
5. Our economy will benefit from capital flow from global giants, leading to developing the front-end and back-end infrastructure in different segments.
6. It enables our retailers to face competition, resulting in expansion of manufacturing, improvement of quality, availability of a variety of products, and this trend is most favorable to consumers who will get access to some of the major global brands.

REASONS FOR GLOBAL INVESTORS' OUTLOOK TOWARDS INDIAN RETAIL SECTOR

After the waves of Liberalization, Privatization, and Globalization (LPG) Indian Marketing scenario, more particularly retailing, has changed radically; small and medium enterprises dominate the Indian retail sector in which around 40 million people are engaged. The 2012 A.T. Kearney FDI Confidence Index ®, which inspects the country-wise forecasts for FDI flows, ranks India as the 2nd best country globally. India scores 1.73 on a scale of 3 and is behind only China.

Table Global Retail Development Index in 2018

2018 Rank	Country	Market attractiveness	Country Risk	Market Saturation	Time Pressure	GRDI score
1	Brazil	100	79.4	42.9	63.9	71.5
2	Uruguay	85	73.8	63.6	39.6	65.5
3	Chile	84.3	100	30.3	44.3	64.7
4	India	28.9	59.9	63.1	100	63.0
5	Kuwait	80.4	80.6	57.3	27.1	61.3
6	China	49.5	76.5	31.0	87.7	61.2
7	Saudi Arabia	70.9	80.7	50.6	35.7	59.5
8	Peru	39.8	61.5	72.0	59.5	58.2
9	UAE	87.6	88.9	12.6	42.9	58.0
10	Turkey	83.8	65.5	45.0	37.0	57.8

Source: Compiled from the data available in the 2018 A.T. Kearney GRDI.

India ranks fourth among the 30 developing countries in terms of retail prospects, according to A.T. Kearney's 8th Annual Global Retail Development Index (GRDI). As a result, the Indian retail industry has emerged as the most capable and promising investment market.

INDIA'S RETAIL OPPORTUNITIES AND CHALLENGES BELOW FDI

FDI in retail is no doubt an issue of controversy in India. It consists of many pros and cons. Now we can elaborate on this agreement in favor of and against below.

Arguments in Favor

- FDI in the retail sector is a significant step towards curbing the exploitation of farmers by intermediaries since the farmers can sell their products at their fields which saves money and carrying costs.
- The farmers may be offered quality seeds, fertilizers, pesticides, etc., at the marginalized rate by these retailers.

- The retail sector under FDI is expected to create nearly 10 million jobs and billions of dollars in investments. No way will it affect our smaller and domestic retailers.
- Saturating a market though filling all price and quality gaps.
- It will lead to an upsurge in imports and exports.
- Consumers can reap the benefits of global industries.
- It is expected that domestic retailers can develop their technology by a joint venture with MNC.

Arguments Against

- On the Domestic Direct Investment (DDI) front, the spot as attained in our nation is pretty soured. All banks have enough funds, and the domestic saving rate with banks is also high, so there is no deficit of funds for investment.
- Because the profits or returns must be expelled in foreign currency, FDI is a clear case of foreign exchange liability. Furthermore, future imports of workforce, materials, and merchandise will have to be paid in foreign currency. (Bhargava, Anupam)
- As per the agricultural sector, the farmers will have to depend more on foreign retailers for seeds, fertilizers, pesticides, technology, and instruments. So, they can be cheated on their ignorance.
- The cost of agricultural products may rise because of the high cost of components, instruments, etc.
- No doubt, these foreign corporate sectors will act as middlemen and exploit the farmers and consumers.
- Those who engage in packaging, transporting goods and other ancillary services for the unorganized will be affected by the corporate retailers. Since these corporate retailers are developing their support system, the unorganized retailers and their associated workers will be left to starve.

CONCLUSION

The retail sector plays a dynamic role in the Indian economy regarding its contribution-GDP to the nation, employment opportunities to million people, etc. With the advent of economic reform in 1991, India has been reputed as one of the most prior global destinations for investment. Since 2006, India has allowed 51 percent FDI in single-brand retailing and 100 percent in cash and transmit with one condition: at least 30% of the value of products sold must be sourced from Indian small industries/villages, cottage industries assistants, and artisans. The cabinet's recent decision to allow 51 percent FDI in multi-brand retail has sparked a heated debate about the issue's pros and cons. The present study analyzed Need for FDI in the Retail Sector: Prospects and Challenges in Indian economics from farmers, Indian retailers, and consumers. The Indian economy needs reform, but more importantly, it shouts not be at the cost of the livelihood of unorganized retailers and poor consumers. In India, these unorganized retailers are large and scattered, building an excellent social network to cater to their services. Such retailers should not commit suicide as was done by small farmers in many states. It is the bounden responsibility of the Government to protect their interest.

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