Foreign direct investment in retail market: An analytical study of Indian economy

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ABSTRACT: India being largest developing economy and attracts foreign and domestic retailers due to higher purchasing power of consumers. Urbanisation, industrialisation and consumerism have paved the opportunities for expansion of retail market in the country. The spectacular growth of foreign direct investment in Indian economic landscape over past years has boosted the development of policies and strategies in the nation. Reforming climate of foreign direct investment in retail market for single and multiple brands has brought a new zeal in the retail sector. With rapid pace of growth in retail scenario, the low contribution of organised retail is soon going to have tremendous increase through FDI. This present paper discerns an overview of foreign direct investment in Indian retail sector and attempts to analyse its impact on economy. It also focuses on future prospects of foreign direct investment and upcoming challenges faced in India. The research study is based on secondary data and immense review of literature on foreign direct investment in retail sector of India. The study reveals the impact of foreign direct investment for developing India and ample opportunity in rural India.

Key Words: Foreign Direct Investment, Retail market, Indian economy, Future prospects, Challenges.

I. Introduction

Development of Indian economy, increased purchasing power, merger and acquisition among cross border, rapid advancement of technology and brand proliferation enhances the level of retail in India. The economic growth of the country increases per capita income and thus causes a shift in the pattern of consumption from necessity items towards discretionary items. However liberalisation, privatization and globalisation have paved the ways for international brands to enter Indian domestic market. In a report on foreign direct investment, AT Kearney (2018) states that India is having second highest ranking among emerging market. It leads to various reforms in business environment and economic growth of India. India is expected to rebound this year. IBEF (2018) states that India is first in global retail development index 2017, which is backed in increasing spending of consumers in the country. A report of economic times (2018) states that FDI confidence index falls by three spots at 11th in 2018, it ranked 8th position as shown in figure.1 in year 2017. It is said that downfall in the rank may be due to introduction of GST in the country, still the strong performance in Indian market attracts the investors.

According to Batra (2010) economic development of various countries rely on foreign capital. Industrial policy 1991 allowed FDI in retailing for single brand which accounts for 51%. Retail sector quest the thirst
of employment in the country by employing skilled, semi-skilled and educated workforce of the country. Indian retail industry comprises of organised and major unorganised sector. Unorganised retailing is most popular in India and dominates the market. Bhattacharya (2012) analysed the retail scenario in India. The study reveals that foreign direct investment in India provides opportunities for capital infusion and also facilitates healthy competition among various countries. Thus it reduces price, increased product varieties. FDI in retail sector influences unorganised retail sector, since it is tough for small domestic retailers to face giant global retailers.

A study conducted by Bagaria&Santra (2014) reveals four phases of foreign policy of India regarding investment. 1948-66 phase in which the country welcomed foreign investment. Relative and restrictive policies were adopted in late sixties. Further policy was revised in 1980 to attract resources from oil export. The fourth phase of foreign policy commenced in 1991 to encourage economic growth in the country. Investment in unorganised sector is very low thus it lacks proper infrastructure, since many retailers have less than 500 square feet area, thus the flow of FDI boost the growth in retail sector. Mishra (May, 2017) in a report states that Indian retail sector is expected to be double by 2020. It is expected to be $1.1-1.2 trillion from $ 630. Government has already allowed 100 percent foreign direct investment in e-commerce and food retail in past years. According to Ray et.al (2014), India is having varying culture and tradition, thus it is challenge for companies to adopt themselves according to varying customer preference. Since the Indian market is dominated by unorganised retailers thus it has opportunities for organised retailers. FDI accelerates the growth of Indian economy, provides job opportunities, develops infrastructure and beneficial for customers.

Bahar (2015) reveals that FDI in Indian retail sector is necessary since it enhances export competitiveness and increases financial resources in the country. It increases the job opportunities. Indian retail sector lacks proper infrastructure, improper distribution system. Dominance if marketing intermediaries influences retail industry of the nation. Chowdhary (2016) reveals that FDI in Indian retail sector orients the country towards development. It lures skills and enhances efficiency of companies through aid of FDI. It strengthens the value of Indian currency and reduces growing rate of inflation in the country. Chawla et.al (2016) revealed that retail sector in India is growing due to increased young population, increased women workforce, double income of the country, rapid urbanisation in the country and customer orientation towards modern shopping trend. The study suggests that small retailers should improve their strategy for sustaining in the market. The government should also frame policy in interest of small retailers. Bhaskar&Harshita (2017) states that most of the economies which are already developed depend on retail sector. Indian retail industry is fourth largest player among various players present in the market. Indian retail industry is facing various challenges such as change in preference of customer and logistical challenges. Proper development of infrastructure and well developed infrastructure influences Indian retail market.

II. An overview of Indian retail sector

Foreign direct investment accelerates the growth of Indian economy. India is one of the largest retail market having ample opportunities for growth. It is largest employer for the sector. According to a report by Hindustan times (2018), RBI reveals that India is preferred for FDI, since domestic consumption is high in the country. Foreign capital inflow is increasing in the country majorly due to flow in communication, financial services retail and wholesale trade. Majority of FDI inflow in India is from Mauritius and Singapore which accounts for 61% of total equity investment in the country. An annual report of Reserve bank of India shows country-wise foreign direct investment inflow to India and inflow in retail and wholesale trade. The report in table-1 shows increasing trend in FDI inflow from various countries in India. According to the report investment in retail and wholesale trade continuous increase in economy.

### Table-1: Country-wise foreign direct investment inflow to India and inflow in retail and wholesale trade.

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<tr>
<td>Total FDI</td>
<td>18,286</td>
<td>16,054</td>
<td>24,748</td>
<td>36,068</td>
<td>36,317</td>
</tr>
<tr>
<td>Mauritius</td>
<td>8,059</td>
<td>3,695</td>
<td>5,878</td>
<td>7,452</td>
<td>13,383</td>
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<tr>
<td>Singapore</td>
<td>1,605</td>
<td>4,415</td>
<td>5,137</td>
<td>12,479</td>
<td>6,529</td>
</tr>
<tr>
<td>Japan</td>
<td>1,340</td>
<td>1,795</td>
<td>2,019</td>
<td>1,818</td>
<td>4,237</td>
</tr>
</tbody>
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A report by press information bureau government of India cabinet (Jan, 2018) states that FDI inflow in the country has increased to various measures undertaken by Indian government. The total FDI of US $60.08 have been received in FY 2016-17 which is higher from past financial years. Government have permitted 100% FDI for single brand retail trade through automatic route. Quarterly factsheet (August, 2018) on FDI reveals that FDI inflow in India has shown tremendous increase from US $ 4029 million in FY 2000-01 to US $ 16, 868 million in FY 2018-19 for June. In a report Pandey (August, 2018) states that 100% FDI is allowed for single brand retail trade in India in which more than 51% and at least 30% value of the goods is sourced from India. In contrary only 51% FDI is allowed for multiple brand retail trade.

### III. Statement of problem

Foreign direct investment vitalises the developing Indian economy. Thus the concentration on current status of foreign direct investment in Indian retail is essential. Unorganised sector dominates in Indian retail market with major percentage. The question regarding the impact of FDI on retail sector, the upcoming opportunities in retail sector due to FDI and various challenges needs to be probed by researchers, academicians to acquire new knowledge and provide clear picture of foreign direct investment on retail sector of Indian.

### IV. Objective and methodology of the study

The various objective of the present study are:

- To study the importance of foreign direct investment in Indian retail sector.
- To analyse the impact of foreign direct investment in Indian retail sector.
- To study various future prospects of foreign direct investment and upcoming challenges faced in Indian retail sector.

The present study is based on secondary data, statistical data and analytical understanding of various research papers from various journal considered for the study.

### V. Research gap

Foreign direct investment accelerates the growth of the nation. Various researchers have already concentrated their studies on FDI and retail sector in India. Bhattacharya (2012) focussed the study on opportunities and challenges of FDI and retail. Bagaria & Santra (2014) focussed the study towards in the same direction on retail marketing. Bahar (2015) studied FDI in retail sector. Chowdary (2016) concentrated the studies through analysing FDI in retail sector. Still there exists a research gap, since the researchers have not analysed the whole economy.
VI. Challenges and Opportunities of Foreign retail in India

Challenges:
- **Improper infrastructure**: Indian retail industry lacks proper infrastructure development, thus it results in high total cost of production and cost to the consumer.
- **Logistic management**: Improper logistic in the country increases inefficiency in retail processes. Retail sector lacks well-developed logistic system.
- **Unorganised sector**: Indian retail market is dominated by unorganised retailers. Thus, there is a challenge for organised retailers to strengthen their roots in the market.
- **Political issues**: FDI is influenced by political interference. FPI for multiple brand retail trade was influenced due to lack of consensus from political policies in November 2011 and further new policy was framed in September 2012.

Opportunities:
- **Capital infusion in the nation**: It resolves the problem of cash deficit retailers and provides the opportunity to raise funds. The funds can be utilised in the development of infrastructure, creates job opportunities and accelerates the growth of the nation.
- **Enhances customer satisfaction**: Organised sector facilitates customers with ample choices among national and international brands of products. Infrastructure development provides a pleasant environment to the customers for shopping the products. Availability of huge space for shopping and product displays enhances satisfaction among the customers. Price competition is influenced due to FDI, since it challenges the monopoly of domestic players.
- **Improves technology**: Inflow of financial resources in the sector facilitates improved technology for manufacturing, processing, packaging, weighing and billing the products. Automation in the sector increases the efficiency of the segment.
- **Create employment opportunities**: Foreign companies in the Indian retail sector ensures and promotes environment of quality employment opportunities in the nation. The lifestyle of the Indian citizen is improved with the standard of living due to availability of better job opportunities. The skills of Indian human resource is thus utilised effectively.

VII. Conclusion
Foreign direct investment empowers Indian economy to withstand competition. FDI in retail sector enhances quality standards for the products, expertise and employment in the segment. FDI must be encouraged in the nation to increase efficiency of the sector. The government of India must ensure that the domination of foreign companies should not concentrate the Indian market and influence domestic retailers. The policies must be framed for sustainability of small retailers in the market. Still FDI is helpful in development and growth of Indian economy. FDI has positive impact on the economy.

References