An Analysis of the FDI flow and its Impact on the Indian Retail Sector

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ABSTRACT:
The Indian retail sector is quickly becoming one of the country's most important industries. It contributes 10% of GDP and 8% of employment to the economy. The country also has one of the highest per capita retail store availability rates in the world. Foreign Direct Investment (FDI) into the Indian retail sector began in 2006. Under the automatic approach, multi-brand retail receives 51% FDI and single-brand retail receives 100% FDI. With the introduction of innovative methods such as E-retailing, the Indian retail sector is expanding at a quicker rate, increasing employment opportunities. Foreign Direct Investment (FDI) in the retail sector was a difficult decision for the government to make because it could result in enormous labour displacement, which is not desirable for a labour surplus economy like India. The unorganised retail sector dominates the Indian retail industry, accounting for 88 percent of sales in 2019, while organised retail accounts for only 12 percent. With the quickly changing retail landscape, India will soon be one of the fastest growing and most promising regions in the world. The purpose of this paper is to examine the trend, impacts, issues, and prospects in the Indian retail industry in light of FDI. From 2007 through 2021, the research study examines the trend of FDI influx into the Indian retail industry. The study paper is descriptive in nature, with data gathered from a variety of published RBI and other institutions papers.

Keywords: ***Indian Retail Sector, FDI, Organized Retailing, Unorganized Retailing***

INTRODUCTION

There is a wealth of theoretical and empirical data pointing to a link between economic growth, rising per capita income, the spread of branded products, and the country's booming retail industry (Mukherjee, Satija, Goyal, Mantrala, & Zou, 2011). Retail modernization has occurred in India as a result of economic development, rising purchasing power, increased consu-mption, and brand multip-lication. High economic growth raises per capita income, which leads to a change in consumption patterns away from necessities and toward discre-tionary items. In addition, as the economy liberalises and globalises, a plethora of overseas brands join the domestic market. Retailing is India's largest private sector and the country's second largest employer. The Indian retail industry, which includes both organised and unorganised sectors, is one of the country's fastest expanding industries. Due to rising urbanisation and shifting purchasing patterns, India has seen a revolution in retail trade during the last two decades. This has prompted merchants to focus their efforts and maximise their capabilities in order to fully realise the potential. The intro-duction of major corporate entities into retail sparked a spike in the industry's expansion.

India's economic development has been greatly aided by foreign direct invest-ment (FDI), which has served as both a non-debt financial resource and an important engine of growth. Com-panies from throughout the world invest in India for a variety of reasons, including lower wages and special incentives like tax rebates. It also entails the acquisition of technical expertise and the creation of employment opportunities in countries where foreign investment is made.

Foreign capital continues to come into India thanks to the Indian government's favourable policy regime and thriving economic environment. In recent years, the government has made a number of steps, including loosening FDI restri-ctions in areas like as defence, PSU oil refineries,telecommunications, electricity exchanges, and stock excha-nges, among others.

Literature Review

Abrar (2012) explored the nature of multinational merchants' relationships with their suppliers, as well as their impact on workers and farmers in India. The report went into great length into the sources of pressure for allowing FDI in India, the potential impact on marginal producers and the labour, and the pressure to guarantee that allowing

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FDI in retail is irreversible. Allowing good FDI in the retail sector, according to the study, will help to boost GDP and lead to economic progress. It will aid the integration of the Indian retail market with the global market. People in India are likely to have better job prospects as a result of it. A positive consumer experience, on the other hand, will benefit consumers.

Fulzele and Zodage (2013) highlighted the benefits of FDI in the Indian retail industry. For international investors, India offers a wide range of opportunities. Export-oriented foreign direct investment (FDI) has been identified as a critical component in fostering farmer development and growth as well as creating new jobs and expanding small-scale industries while also curbing inflation, enhancing retail services, transferring technical know-how, and streamlining supply chains. The study also found that FDI is essential for driving GDP growth and lowering the production costs of consumer goods and services.

The SWOT analysis of FDI in Retail was emphasised by Pavithra (2012). The researcher found that allowing FDI into the retail sector will help the sector gain traction by playing a significant role in its uplift. FDI should be introduced in stages to protect the interests of small merchants.

According to Rajput et al. (2012), since FDI was allowed into the Indian retail sector, there has been a significant shift in the techniques used by Indian merchants to attract customers. Using a SWOT analysis, they looked at the impact of the current retail FDI policy on Indian consumers and the economy. According to the analysis, it will have a favourable impact on the overall growth of the Indian economy.

The impact of opening the retail sector to FDI in India was studied by Chari and Raghavan (2011), who found that entry of foreign players would result in large-scale exit of incumbent local retailers, and that the organised retail sector in India is still in its infancy, making it difficult to compete with big players. Improved distribution and warehousing channels are projected to emerge as a bonus from increased exports, according to the report. FDI would also assist to combat inflation by generating stronger demand and supply linkages, which would help to boost the final selling prices paid to farmers.

In their study, Sinha and Kar (2007) focused on the rising retail formats in India, such as discount stores, dollar stores, supermarkets, hypermarkets, malls, convenience stores, and category killers, among others. The researcher discovered that the emergence of such modern retail formats in India is due to customers' dynamic and proactive responses, as well as changing lifestyles and trends.

Research Objectives

This article continues to flesh out the Indian retail tale with the goal of analysing the current retail landscape in India, having demonstrated the vast potential and current state of global giants' entry into the Indian retail market. The purpose of this study is to examine in depth India's recent FDI policy in the retail sector, including its legislative framework and provisions, forms, conditions, impact, strengths and weaknesses in light of the changing dynamics of the Indian retail scene.

Research Methodology:

This is an empirical study that relies solely on secondary data. The study draws data from a variety of sources, including the Reserve Bank of India's Handbook of Statistics on Indian Economy, the Government of India's Department of Industrial Policy and Promotion (DIPP) publications, the Ministry of Finance's Economic Survey of India (various issues), the Indian Brand Equity Foundation's Annual Retail Sector Report, the Foreign Investment Facilitation Portal's publications, and the National Acco-unts Statistics (CSO). Further-more, the analysis makes use of data from the United Nations Conference on Trade and Development's World Investment Report (WIR)(UNCTAD). We employed various growth indicators such as Compound Annual Growth Rate (CAGR), Average Annual Growth Rate (AAGR), and Ratios to assess the FDI inflows patterns.

The Retail Industry in India

Indian retailing began as a source of amusement (in the shape of village fairs, feasts, and so on) that was accessible to the rural population. These were then turned into Mom and Pop / Kirana Stores, which are traditional local stores. Then followed government-supported PDS outlets, Khadi Stores, cooperatives, and so on. Finally, shopping malls, supermarkets, department stores, and so on, which have revolutionised the Indian retail business (Figure 1).

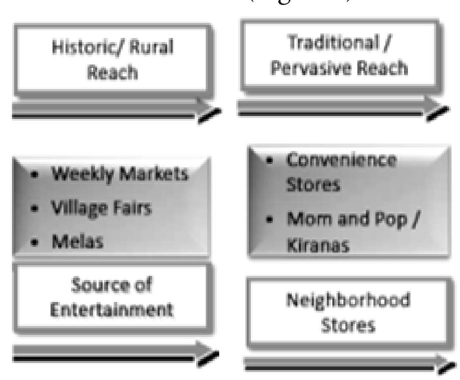

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Figure 1: Development of Indian retail sector

The retail industry in India is vastly different from that of the West. Independent merchants (vertical separation) and manufacturers (direct distribution) are common distribution methods for products and services in industrialised countries (vertical integ-ration). In the latter case, the producers either establish their own retail chains or franchisees to sell their products.

The Indian retail industry, on the other hand, is split into two parts: organised and unorganised. Organised retailing is done by people who are legally allowed to do so, like people who pay sales taxes, income taxes and other taxes. Some of them are publicly traded supermarkets and retail chains, but there are also some that are privately owned. However, unorganised retailing refers to low-cost retailing formats that have been around for a long time, like local kirana shops and owner-run general stores. These stores sell things like Paan/beedi (a type of tobacco), convenience stores, hand carts and pavement vendors, and so on.

Types of Retailing in India

(a) Single Brand- The term "single brand" refers to the ability of foreign corporations to offer items sold internationally under a "single brand," such as Reebok, Nokia, and Adidas. In retail, "one brand" FDI refers to a retailer that only sells one brand because of the foreign investment. There would be no room for Reebok products in such retail locations if Adidas were granted authorization to market its flagship brand in India. Adidas would be allowed to sell Reebok products in its own stores if they were given permission.

(b) Multi Brand- It's possible to sell multiple brands from a single location with FDI in Multi Brand retail, to put it another way. Multi-brand retail outlets like the ubiquitous kirana shop can be created by retailers like Walmart and Tesco, which will allow them to offer a wide variety of household goods and consumables. In order to ensure that foreign investment has a positive impact on India's infrastructure and logistics, the licences for single and multi-brand operations include a number of condit-ions for foreign investors. These conditions also allow for the inclusion of small merchants in the new value chain.

However, given specialist formats such as music, mobile, and electronic products require lesser investments, the US$ 100 million minimum capital requirement may make it difficult for international investors wishing to enter India's supermarket/hypermarket industry. The cities in which FDI-backed stores can operate may also be restricted by regulations established by the state government. Retailers from outside India may find it difficult to establish operations in India if the existing opposition from various political parties continues. Additionally, it may have an impact on supply chain efficiency, restricting the number of cities where these merchants can operate.

Recent Scenario of Indian Retail Industry

Due to the introduction of various new businesses, It has become one of the most active and fast-paced industries in India's retail sector. It generates more over ten percent of the country's GDP and employs about eight percent of the workforce. In terms of retail, India is the world's fifth-largest destination.

The United Nations Conference on Trade and Development's 2019 Busi-ness to Consumer (B2C) E-comm-erce Index rated India 73rd. India is the world's fifth-largest retail destination, ranking 63 in the World Bank's Doing Business 2020 report.

In terms of retail, India is the world's fifth-largest destination. India is placed 16th in the FDI Confidence Index (after US, Canada, Germany, United Kingdom, China, Japan, France, Australia, Switzerland, and Italy).

Market Size of the Indian retail industry

According to Kearney Research, India's retail business would develop at a slower rate of 9% from 2019 to 2030, rising from US$ 779 billion in 2019 to US$ 1,407 billion in 2026 and more than US$ 1.8 trillion in 2030.

Offline retailers in India, also known as brick and mortar (B&M) shops, are predicted to raise their revenue by Rs 10,000-12,000 crore (US$ 1.39-2.77 billion) in FY20. By the end of 2021, India's direct selling business will be worth $2.14 billion.

In February 2021, the retail industry attained 93 percent of pre-COVID sales, according to the Retailers Association of India (RAI); consumer durables and quick service restaurants (QSR) grew by 15 percent and 18 percent, respectively.

After a 19 percent drop in the January-

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March 2020 quarter, the FMCG industry showed indications of recovery in the July-September 2020 quarter, with a 1.6 percent y-o-y increase. The growth in the fast-moving consumer goods (FMCG) industry was also a reflection of the wider macroeconomic situation, which has improved with the liberalisation of the economy and the lifting of tight restrictions.

According to a report by Bain & Company in collaboration with Flipkart titled 'How India Shops Online 2021,' the e-retail market in India is predicted to rise to US$ 120-140 billion by FY26, growing at a rate of about 25-30 percent per year over the next five years. India has the world's third-largest e-commerce market (only behind China, the US). By 2030, new-generation logistics companies are estimated to deliver 2.5 billion Direct-to-Consumer (D2C) packages. In the next ten years, online used automobile transaction penetration is predicted to increase by 9x. Despite the epidemic, Amazon, Flipkart, and other vertical players sold $9 billion worth of items during the festival season in 2020.

Rationale Behind Allowing FDI in Retail Sector

Due to the existing state of low competition and low productivity in the retail business, FDI can be a potent driver for boosting competition. An appropriate flow of capital will be generated if foreign investors are allowed to purchase food-based retail businesses as well as its productive use in a way that benefits all members of society, including farmers and consumers. It would also aid in the increase of farmer income and agricultural expansion, as well as the reduction of consumer price inflation.

Along with helping India meet customer needs and raise quality standards, allowing FDI in retail will boost the country's overall quality and cost competitiveness, two important goals. As a result, it is obvious that foreign direct investment (FDI) should be allowed and even encouraged in the retail industry.

Market size

According to the Department for Promotion of Industry and Internal Trade (DPIIT), FDI equity inflows into India totalled US$ 547.2 billion between April 2000 and June 2021, proving that the government's efforts to improve ease of doing business and simplify FDI procedures have paid off.

Between April and June 2021, FDI equity inflows into India totalled US$ 17.56 billion. The automobile sector drew the most FDI equity inflow of US$ 4.66 billion between April and June 2021, followed by the computer software and hardware sector (US$ 3.06 billion), services sector (US$ 1.89 billion), and metallurgical industries (US$ 1.26 billion).

Singapore was the largest source of FDI equity inflows to India (US$ 3.31 billion) between April and June 2021, followed by Mauritius (US$ 3.29 billion), the United States (US$ 1.95 billion), the Cayman Islands (US$ 1.32 billion), the Netherlands (US$ 1.09 billion), Japan (US$ 539 million), and the United Kingdom (US$ 345 million).

Karnataka received the most FDI equity inflows of US$ 8.45 billion over the same time, followed by Maharashtra ($ 4.09 billion), Delhi ($ 1.95 billion), and Gujarat ($ 765 million).

Future of FDI in India

According to research by the CII and EY, India is likely to receive FDI worth US$ 120-160 billion per year by 2025. Over the last ten years, the country's GDP has increased by 6.8%, with FDI increasing by 1.8 percent.

According to the Economic Times, investors placed India third in terms of desirability, with 80% planning to invest in India in the next 2-3 years and 25% reporting investments worth more than US$ 500 million.

Furthermore, according to a Deloitte analysis released in September 2021, India remains an appealing market for overseas investors in both the short and long term.

The Institute for Management Development (IMD annual)'s World Competitiveness Index 2021 rated India 43rd. According to the IMD, India's improvements in government efficiency are mostly due to relatively stable public finances (despite COVID-19-related issues) and hopeful emotions among Indian industry stakeholders regarding government funding and subsidies.

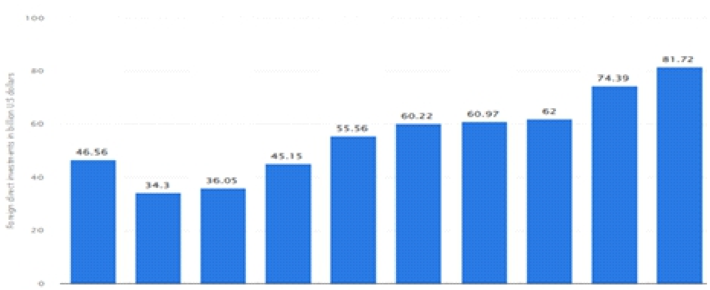

Fig 2: Source: Statista 2022

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Amount of FDI inflow for all sectors in India FY 2012-2021

Despite the effects of the coronavirus (COVID-19) epidemic, India's overall foreign direct investment intake hit a new high in fiscal year 2021, totalling nearly 82 billion US dollars. FDIs are a key driver of a country's economy since they increase employment, increase technical expertise, and supply non-debt financial resources. In a growing country like India, foreign investors find the lower job wages and government tax exemptions in FDI to be a tempting opportunity for investment.

Through various regulatory and financial reforms in the investment procedures, the Indian government has been aggressively working towards achieving its objective of 100 billion US dollars in FDI inflows by 2020. This appears to be working in India's advantage, since the country's FDI share increased by over 20% in 2020. India was ranked among the top 20 host economies for FDI inflows in a UN report released in 2019. Global FDI inflows were more than one trillion dollars in fiscal year 2018, with around 500 billion dollars coming from the emerging Asian area, including India.

Leading FDI investors and sectors in the Indian market

In the financial year 2021, Singapore was the top investor in the country, with FDI equity investments totalling over 100 billion dollars, followed by the United States of America and Mauritius. With an aggregate value of approximately to 26 billion US dollars for fiscal year 2021, the IT industry accounted for the highest share of foreign direct investment equity inflows, followed by construction and the services sector.

FDI in retail sector: Recent trends:

Figure 3 depicts overall FDI inflow patterns in the retail industry from 2007 to 2020. According to the graph, after the single-brand retail sector opened in 2006, the country began to attract major FDI. Nonetheless, from 2007 and 2013, the rate of FDI intake into the sector was not only slow but also inconsistent, with a significant improvement recorded after that. The large increase in FDI inflow can be traced in part to the government's decision in 2012 to allow 100 percent FDI in single-brand retail.

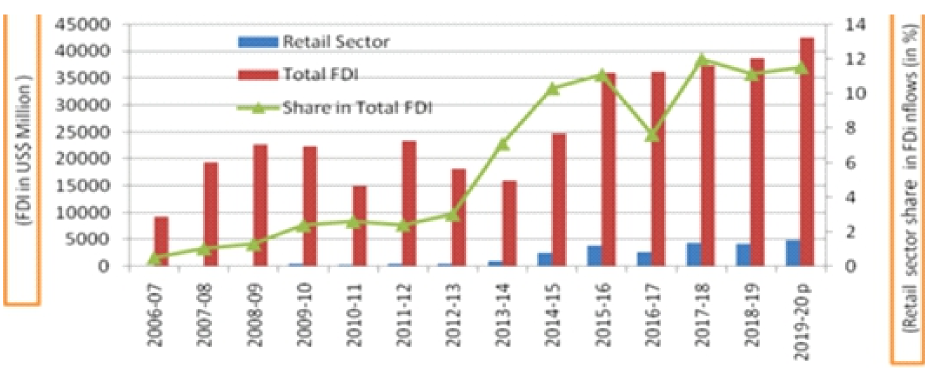

Fig 3: Authors calculation from RBI bulletin

As projected, demonetization (on November 8, 2016) had a negative impact on FDI inflows, with inflows falling from 32 billion dollars in 2016 to 13 billion dollars in 2017. However, the nationwide introduction of GST in July 2017 accelerated the influx of FDI into the retail sector. Inflows of FDI into the retail sector surged by 274 percent year on year between FY 2019 and FY 2020. Based on the aforementioned study, it is easy to conclude that the implementation of GST has had a favourable impact on FDI inflows into the retail sector. The retail sector's proportional share of overall FDI inflow in the economy is depicted in the right panel of the figure. As previously stated, FDI approval in single brand retail was initially done with a great deal of anxiety and care, resulting in a small share of total FDI. For example, the retail sector's proportion of total FDI inflow was 0.01 percent in 2007, and it stayed below 1% until 2013. The country saw a considerable increase in the absolute quantity and higher percentage of the retail sector in FDI inflows with the adoption of countrywide GST, from 0.5 percent in 2017 to 2.3 percent in 2020.

FDI inflows into retail vs. total inflows into the economy:

Figure 4 depicts the annual growth of FDI inflow into the retail sector relative to the overall GDP from 2006-07 to 2019-20. From 2007 to 2011, the average compound annual growth rate of FDI intake into the retail sector was 29.31 percent, compared to 15.14 percent for all sectors.

Inflows of FDI into the retail sector and the total economy were 163.0 percent and 29.05 percent, respectively, from 2012 to 2016. The government's decision to raise the foreign investment threshold for single-brand retail and to permit foreign investment in multi-brand retail in 2012 may have contributed to the stronger growth in the retail industry in the later era. FDI inflows into the retail sector have decreased dramatically since demonetization, relative to overall economic

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inflows. Inflows of foreign direct investment (FDI) into the retail sector and the economy have been positive in 2020. FDI inflows into the retail sector and the overall economy surged by 274.0 percent and 85 percent, respectively, from 2019 to 2020. Increasing FDI inflows into the retail sector demonstrate the sector's vitality and economic potential.

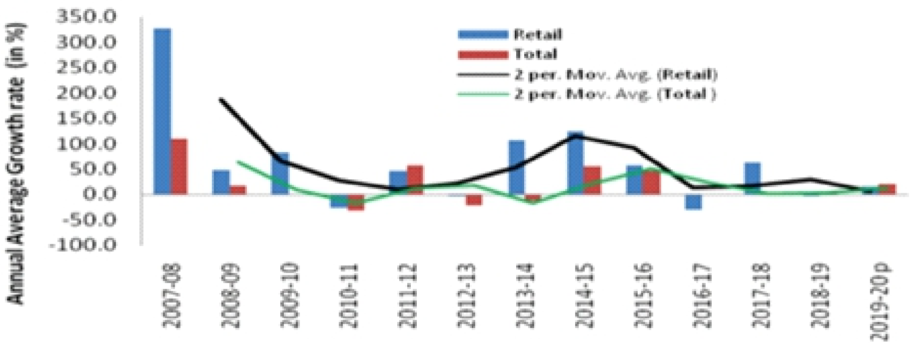

Fig 4: Annual growth rate of FDI Inflows

Discussion & Conclusion

The days of people relying on a nearby retail establishment to meet their requirements are long gone. Customers' responses have shifted dramatically as a result of new concepts such as e-tailing and personalised products. The liberalised FDI policy in the retail sector has both positive and bad aspects. FDI will undoubtedly enhance the status of the Indian economy, but the interests of small merchants must be considered when drafting and executing the policy. With increasing customer awareness and a shift in their attitudes, it is suggested that small merchants devote time to reviving the techniques needed to draw clients to their establishments. For attracting customers to their retail stores, small retailers must focus on innovative retailing concepts, spend time on CRM practises, improve SCM, use feedback, keep a customer track record, provide quality products, improve the ambience, and most importantly, provide a personal touch to the services. The government must also enact rigorous laws that protect the interests of small retailers, allowing the organised and unorganised sectors to coexist and thrive.

According to the aforementioned research, FDI inflows into the retail sector were not promising in the early stages (from 2007 to 2012). However, the patterns in FDI inflows are optimistic for the sectors following the permission of increased FDI in multi-brand retail. Furthermore, the retail sector's recent faster rise in FDI inflows compared to the national average underlines the sector's potential and necessitates the government's close attention. It has to be seen whether FDI inflows into the retail sector have introduced new technology, structural reforms, professional management, and sufficient productive links with the rest of the economy.

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