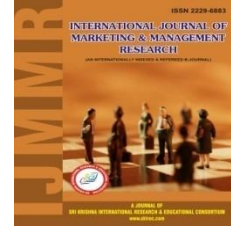




The Journal of Sri Krishna Research & Educational Consortium
**INTERNATIONAL JOURNAL OF
 MARKETING AND
 MANAGEMENT RESEARCH**
 Internationally Indexed & Listed Referred e-Journal



FDI IN RETAIL INDUSTRY IN INDIA

N.SWAPNA*

*Research Scholar,
 Osmania Univeristy,
 Hyderabad, India.

ABSTRACT

The retail sector in India has been developing since the liberalization of Indian economy. It is found as a promising one in contributing a lot to the national income and in term the growth of the Indian economy. It is beyond-doubt that this sector can get higher and reach the paramount of Indian economic development provided the required infrastructure. But unfortunately, in recent past the Government of India took a provisional decision to accept investments of FDIs in retail sector at 51 percent, which is ironical in nature. Because, the retail sector in India is looking for necessary infrastructure, whereas FDI flows require a structured infrastructure to take-up or involve in the business segments in any country, particularly India. Without looking at this reality, the government of India by not approaching the parties concerned and taking into consideration the concerns of the stakeholders in a colossal way the decision with regard to FDI in retail sector has been made. Hence, there was a huge level of resistance and hue and cry towards the decision. However, now there is a big question in front of government of India that whither FDIs in retail sector? The present paper is a modest attempt to discuss on the need and relevance of FDI in retail sector and the reflection of the same over Indian economy in a comprehensive manner.

KEYWORDS: FDI, infrastructure, Retail Sector, Indian Economy and Economic development.

1. INTRODUCTION

FDI plays a major role in the development of the country. It contributes its favour in the process of development like the transfer of financial resources in the various sectors, spreading the technology, improving the managerial skills and the progress of growth. Developing countries need the foreign inflow because, it needs the financial assistance to achieve the requirements and

to adjust the sufficient investment. India has been following the liberal FDI policies and allowed FDI up to 100 per cent under the automatic route in all the sectors except prohibited for FDI, activities that require industrial license etc., the UPA government of India had mulled over allowing 51 per cent foreign direct investment in multi-brand retailing in the country. Modern retailing has entered into the country and as is observed in the form of bustling shopping centers, multi-storied malls and the huge complexes that offer

shopping, entertainment and food all under one roof. A large young working population with median age of 24 years, nuclear families in urban areas, along with increasing working women population and emerging opportunities in the services sector are the key factors in the growth of the organized Retail sector in India. The growth pattern in organized retailing and in the consumption made by the Indian population will follow a rising graph helping the newer businessmen to enter the India Retail Industry.

2. METHODOLOGY

The study is largely based on secondary data obtained through scanning of available literature on the subject from various libraries and institutes. Various magazines, newspapers, journals etc. were consulted. Interviews and group discussions with knowledgeable people in this field. The relevant data from various sources has been collected and the updated report has been compiled.

3. OBJECTIVES

1. To analyze the FDI policies in India.
2. To review the FDI flows in retail sector.
3. To know the effect of FDI on the development of Indian economy
4. To know the infrastructure development.

4. RETAIL SECTOR IN INDIA

In the present times, Retail and Real Estate are the two booming sectors of India. If we talk about the boom in retail sector, the retail sector is the largest sector in India after agriculture, accounting for over 10 per cent of the country's GDP and around 8 per cent of the employment. India is one of the most attractive and fast growing destinations for retailers from all across the globe. Thanks to the entry of corporate, gradual increase the limit of Foreign Direct Investment (FDI) in retail sector, increasing influence of western culture and rising income, changing customer behavior & lifestyle, the Indian retail industry has seen phenomenal growth in the last six years (2001-2007). As per the industry experts, the prospects of Retail and Real Estate sectors are mutually dependent on each other. Retail, one of India's largest industries, has presently emerged as one of the most dynamic and fast growing industries of our times with several players continuously entering the retail market in India and investing in developing the infrastructure and construction of the retailing business.

Retail sector in India has opened up to the foreign brands. The Indian Government has finally taken steps towards opening up the retail sector to foreign investment. In a recent announcement, the Indian Government stated its intention to allow foreign investment in 'single brand' retail up to 51% with the remaining 49% to be possessed by Indians. This policy has attracted a lot of foreign retailers to expand their business in India. It is required for the agency responsible for authorizing foreign investments into retail sector of the country, to take the permission of the Foreign Investment Promotion Board, before any investment is made in India. 'Single brand' retail means that a retail store with foreign investment can only trade in or sell one brand.

5. RETAIL TRADE - INDIA:

Retail Trade in India (Year 2010)	
Trade (US \$ Billions)	180-394
Employment (%) in the total employment	7
Shops (million)	12
Organized Sector Share (%)	2-3

Source: The Economist

With increase in disposable income, the purchasing power of Indian urban consumer is also growing and branded merchandise in various categories like Accessories, Apparels, Food, Electronics and even Jewellery, are gradually becoming lifestyle products. Retailers are taking benefit of this growth and accordingly are aiming to expand more and more. The retail sector in India is also getting advanced. Modern Large-Format retail, proficiently connects the producers and the consumers and is helpful to both in the long run. In India there is an enormous wastage of fresh fruits and vegetables. In this situation, the Large-Format Retail provides all important infrastructures to transport the farm produce to the consumers with lesser wastage. This way leads to the better returns to the farmers and good quality and less price to the consumers.

6. GROWTH OF RETAIL INDUSTRY IN INDIA

A. FDI POLICY

Foreign direct investment (FDI) has become an integral part of national development strategies for almost all the countries globally. Its global popularity and positive output in augmenting of domestic capital, productivity and employment; has made it an indispensable tool for initiating economic growth for nations. India is evolving as one of the 'most favored destination' for FDI in Asia and the Pacific (APAC). It has displaced US as the second-most favored destination for foreign direct investment (FDI) in the world after China according to an AT Kearney's FDI Confidence Index. India attracted more than three times foreign investment at US\$ 7.96 billion during the first half of 2005-06 fiscal, as against US\$ 2.38 billion during the corresponding period of 2004-05. FDI in India has contributed effectively to the overall growth of the economy in the recent times. FDI inflow has an impact on India's transfer of new

technology and innovative ideas; improving infrastructure, a competitive business environment. An ongoing review of the FDI policy is carried out so as to initiate more liberalization. Change in sectoral policy/sectoral equity cap is notified from time to time through Press Notes. This is done by the Secretariat for Industrial Assistance (SIA) in the Department of Industrial Policy & Promotion. Policy announcement by SIA are subsequently notified by RBI under FEMA.

- FDI Policy permits FDI up to 100 % from foreign/NRI investor without prior approval in most of the sectors including the services sector under automatic route.
- FDI in sectors/activities under automatic route does not require any prior approval either by the Government or the RBI.

The investors are required to notify the Regional office concerned of RBI of receipt of inward remittances within 30 days of such receipt. They will have to file the required documents with that office within 30 days after issue of shares to foreign investors.

B. FDI FLOWS IN RETAIL SECTOR

India's FDI in January this year fell by 25% margin. Foreign Investments India totaled \$2.04 billion, a marked fall from the previous year's close. The total cumulative amount of FDI inflows in India were Rs 563,656 million, about US\$129,656 million over a decade from 1991 to January 2010. The country attracted FDI inflows of US\$1.74 billion as at November 2009. That marked a 60 per cent increase that was achieved in November 2008 which stood at US\$1.08 billion. The cumulative amount of FDI inflows tabulated from 1991 to end of December 2009 was US\$127.46 billion. The Department of Industrial Policy and Promotion stated in its latest data. Equity FDI inflows into India stood at US\$1.54 billion in 2009, December. Thus when tabulated cumulatively, a total sum of US \$20.92 billion represents the countries FDI Equity inflows from April to December 2009.

In the April to December fiscal year of 2009, foreign investments India inflows peaked at an impressive US\$26.5 billion. That was in addition to the total FDI inflows of US\$23.82 made in January to October of the same year. The Department for Industrial Policy and Promotion estimates that October last year had a 56% in FDI at a sum of US\$2.33 billion. The Indian services sector attracted net FDI estimated at US\$3.54 billion from April to December, 2009. Computer software and hardware sector got around US\$595 million in the same period. US\$2.36 billion marked the Telecommunications earnings in FDI over the same time. Leading investors into India with major FDI inflows were led by Mauritius with a staggering US\$8.91, with Singapore coming a close second with US\$1.7 billion. The US had an overall US\$1.58 billion in FDI inflows into India over the same period of time.

The Indian economy continues to perform impressively despite the biting Greek Crisis and its fears. The Retail market in the Country ranks as the fifth biggest worldwide. This has made India an attractive destination for foreign investments. The Country's total mergers and topped US\$2,167 million when compared to the US\$1, 324 million and US\$223 million in the same time in 2008 and 2009. A survey by the Japan Bank for International Cooperation ranked India as the second most promising destination for foreign investments. The first position went to

China. This survey was done amongst Japanese foreign investors in the Countries of study. The Indian has been significant in its encouragement of foreign investments India for its emerging economy.

7. FDI AND ECONOMIC DEVELOPMENT

India is currently one of the fastest growing economies in the World with GDP growing at 9.1% in April 2006 - September 2006 (GDP growth in Apr 2005-Mar 2006: 9.0%). 100% Foreign Direct Investment is allowed on automatic basis in most of the sectors . The Common Minimum Programme of the government states that "FDI will continue to be encouraged and proactively sought particularly in areas of infrastructure, technology and exports where local assets and employment are generated on a significant scale. The country needs and can easily absorb at least two to three times the present level of FDI inflows".

Government of India has recently permitted Non Resident Indians (NRIs) to invest up to 100% (FDI) in Housing and Indian Real Estate Sector. Non Resident Indians (NRIs) are allowed to invest in the following realty segments in the Housing and Real Estate Sector under the Automatic Route of FDI:

1. Investment in real estate covering construction of residential and commercial premises including business centers and offices.
2. Development of services plots and construction of built up residential premises.
3. Hotel, Resorts, Development
4. Township development
5. City and regional level urban infrastructure facilities, including both bridges and roads.
6. Investment in manufacture of building materials.
7. Investment in participatory ventures in (i) to (v) above
8. Investment in housing finance institutions.
9. Special Economic Zones (SEZ's)

Also, it is not required to take prior approval from the Government, but the RBI should be informed within thirty days of the inward remittances or issue of shares to NRI. Opening up of 100% Foreign Direct Investment (FDI) in the real estate sector, there are certain reforms have been initiated by Government like setting up real estate mutual funds coupled with other fiscal reforms like rationalization of stamp duty, property taxes etc. in order to make the real estate a promising investment option. The directional flow of FDI into manufacturing and export of goods and services is contributing immensely to India's export efforts. As per the FDI policies, until now, only Non Resident Indians (NRIs) and Persons of Indian Origin (PIOs) were allowed to make investment in the housing and the real estate sectors. Foreign investors other than NRIs

were permitted to make investment only in development of integrated townships and settlements either through a wholly owned subsidiary or through a joint venture company in India along with a local partner.

8. FDI CHARACTERISTICS- 1990-91 AND 2002-03

	Export (%) of Product	Ratio Exports to Imports	Imports of Capital Goods ,(% of Total Imports	R&D (%) of products	Salaries (%) per cent of products	memorandum	
						Companies number	Value of production, all industries =100
1990-91							
All industries	9.3	1.3	9.0	0.09	9.0	300	100.0
Tea plantations	13.7	95.7	18.4	0.00	17.0	24	6.3
Textiles	16.4	3.5	19.5	0.04	14.4	6	2.0
Rubber product	11.2	1.7	7.2	0.00	7.9	4	3.5
Chemicals	9.5	1.2	2.9	0.06	2.0	63	29.3
Engineering	7.0	0.8	12.3	0.14	9.5	126	38.7
Trade	16.3	2.1	61.6	0.05	7.4	8	0.7
2003-03							
All industries	14.8	1.3	7.7	0.38	8.3	419	100.0
Tea plantations	22.4	49.3	9.8	0.05	37.2	10	1.0
Food products	8.9	2.9	5.1	0.09	5.6	16	3.3
Rubber/plastic product	16.4	1.9	16.2	0.21	5.0	11	2.0
Chemicals	11.8	0.9	3.4	0.39	5.7	76	28.2

Engineering	11.1	0.9	9.2	065	8.7	153	26.3
Machinery and tools	13.5	1.0	3.4	0.68	9.5	85	8.5
Electronic machinery	11.4	0.8	6.7	0.47	7.5	33	5.9
Transport equipment	9.2	1.0	16.9	0.72	8.8	35	11.9
Computer and related act	12.7	5.0	74.8	0.77	31.8	23	4.4
Trade	19.9	1.4	1.0	1.80	9.3	20	1.2

Source: Reserve Bank of India

9. CONCLUSION

There has been a lack of investment in the logistics of the retail chain, leading to an inefficient market mechanism. Though India is the second largest producer of fruits and vegetables (about 180 million MT), it has a very limited integrated cold-chain infrastructure, with only 5386 stand-alone cold storages, having a total capacity of 23.6 million MT. , 80% of this is used only for potatoes. The chain is highly fragmented and hence, perishable horticultural commodities find it difficult to link to distant markets, including overseas markets, round the year. Storage infrastructure is necessary for carrying over the agricultural produce from production periods to the rest of the year and to prevent distress sales. Lack of adequate storage facilities cause heavy losses to farmers in terms of wastage in quality and quantity of produce in general. Though FDI is permitted in cold-chain to the extent of 100%, through the automatic route, in the absence of FDI in retailing; FDI flow to the sector has not been significant.

10. REFERENCE

- 1) Graham, E.H. "Foreign Direct Investment in the World Economy" IMF Working paper, W/P/95/59, 1995.
- 2) Klein, M., Aaron, and B.Hadjimichad. " Foreign Direct Investment and Poverty Reduction", Policy Research Working Paper No.2613, The World Bank Washington D.C., 2001.
- 3) Lall, S. "Vertical Inter Firm Linkages in LDCs: an Empirical study: Oxford Bullitin of Economics and Statistics, Vol.42, No. 304 India, 1980.
- 4) Mohan Guru Swamy, Kamal Sharma, Jeevan Prakash Mohanthy Thomas J.Korah "FDI in India in Retail Sector More Bad than Good? "

- 5) Raghavendhra Jha. Recent Trends in FDI flows and prospects for India.
- 6) Prof. Dr.R.N Wakchaure . Foreign Direct Investment And Employment Opportunities in Indian Retail Sector.