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Analyze the need of Foreign Direct Investment (FDI) in retail sector from positive & negative point of view

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***Abstract*---**Retail sector is most important sector of our India. Because after agriculture, this sector who gives the maximum job opportunities in India. There are mainly two types of retail sector are organized and unorganized sector. Organized sector will be increasing at capital assets growing rate (CAGR) at 20 to 25 % rate from 2021, currently they increasing ate the rate of 10% to 11 %. E- Commerce business is also expected to be increase from US $38.5 billion in 2017 to US $ 200 billion in 2026. Foreign direct investment in retail sector helpful in creating more domestic income and contribution in gross domestic income (GDP). However, on other hand, they also have some negative points, foreign companies not completely transfer the technology to domestic country and they provide the fewer wage to local employees.

***Keywords*---**foreign direct investment, retail sector, retail sector.

Background regarding Foreign Direct Investment

Foreign investment was announced in 1991 under Foreign Exchange Management Act (FEMA), energetic by then finance minister Manmohan Singh. Economic liberalization started in India during 1991, in order to remove the economic crisis. Foreign companies invest directly in India due to take advantage of cheap labor and changing the environment of business.

India in 1997 allowed foreign direct investment (FDI) in cash and carry wholesale. Then, it required government approval. The approval requirement was relaxed, and automatic permission was granted in 2006. From 2000 to 2010, Indian retail

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has attracted about $1.8 billion in foreign direct investment, representing a very small 1.5% of total investment flow into India.

According to the financial times, in 2015, India overtook China and the United States as the top destination for foreign investment. In the first half of 2015, India attracted $ 31 billion compared to $ 28 billion and $27 billion of China and United States respectively

Introduction on Foreign Direct Investment

Foreign Direct Investment (FDI) is the investment made in production or business by the country in another country by either means of buying a company or expanding its business in a foreign country. It is usually utilizing bonds and shares. FDI refers to capital inflows from abroad that invest in the production capacity of the economy and are "usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depend on the performance of the projects financed by the investors. FDI also facilitates international trade and transfer of knowledge, skills, and technology."

FDI happened when one country (home country) invests in another country (host country), to accelerate the earing of the home country concerning the host country. Further, the investing country wants to control the foreign market, but it depends upon equity participation in a foreign market. FDI also includes reinvested retained earing, which is not distributed as a dividend to the shareholder, or any other income, which is not transferred to the home country.

Objective of research

The common objective of research is to analysis the up to which extent; retail sector is influenced by foreign direct investment. The following are the particular objective of this study.

- To analysis the impact of foreign direct investment in retail sector in positive manner.
- To explore the drawback available in the retail sector after FDI.
- To give brief information about retail sector after foreign direct investment in India.

Methodology and data sources

This study based on secondary information is extensively used for analysis purpose. Further the secondary data pertaining to the study is originated from various sources like journals, research papers, authenticate books, reports, and websites, newspaper. This study helps in obtaining more information regarding foreign direct investment in the retail sector.

Types of FDI

- Horizontal FDI arises when a company performs the same activities in the host country, which performs in the home country. For example- Toyota assembles motor cars in Japan and the U.K.
- Platform FDI Foreign direct investment from a source country into a destination country to export to a third country.
- Vertical FDI takes place when a firm through FDI moves forward or Backward in different value chains i.e. when firms perform value-adding activities stage by stage in a vertical fashion in a host country.
- In the case of forwarding, an FDI company comes close to the market. For example, Toyota buying car distributorship in America.
- In the case of Backward FDI, the company goes away from the market. For example, Toyota buying majority stakes in tire manufacturer or a rubber plantation.
- Conglomerate FDI- In this type of investment, investment is to make acquire unrelated business in abroad.

What is Retail Sector?

The retail sector is the process under which mainly sales the goods and services to earn of profit. Under the sector retailers plays the important, retailers is the person who sales the goods and services to end-user buyer. Retailers are the person who helps in satisfying the wants and needs of customer

Entry Routes of FDI in retail sector

a. Automatic route- The foreign investor or any Indian investor does not require approval from any government agency of India.
b. Government route- Under government route before investment approval from respective government agency/ administrative department is required.

Types of Retail Sector
Organized Retail Sector

Under this sector sales and purchased activities conducted with the help of recognized retailers, who have legally licensed for doing business like registered under goods and service activities. The organized sector growing in India at 20-25 capital assets growing rate (CAGR) by 2021, increase from the current 10-12 percent. The Indian retail is expected to be reached at $1,750 billion by 2026.

Division of Organized Retail Sector

a. Single Brand Retail Sector
b. Multi Brand Retail Sector
c. E-commerce activities

a. Single Brand Retail Sector- under single brand retail sector, company sells the different products, but these entire products related to single brand. Under this sector, government allowed 100% foreign direct investment through automatic route. Examples of companies related to single brand retail sector are Sony, Nokia, LG, IBM, Nike, Adidas and Ikea etc. There are some important conditions regarding single brand retail sector.

- Foreign direct investment in single retail sector is allowed 100 % through automatic route.
- Under single retail sector, investor is required to arrange 30% of the value of goods from local market or it means from India.
- Retailers that invest up to $100 million in the sector will get six years to meet the conditions.
- Those that invest over $200 million will get eight years while those putting in over $300 million will have 10 years.

b. Multi Brand Retail Sector – Selling the different types of products, this is related to different brands under one roof. For this sector government allowed maximum limit 51% foreign direct Investment through government route. Example of multi brand retail sector are Biz Bazar, Reliance Trends, Shopper Stop, Pantaloons, Life style international, Westside, Maya lifestyle etc. The following are the conditions related to the multi – brand foreign direct investment.

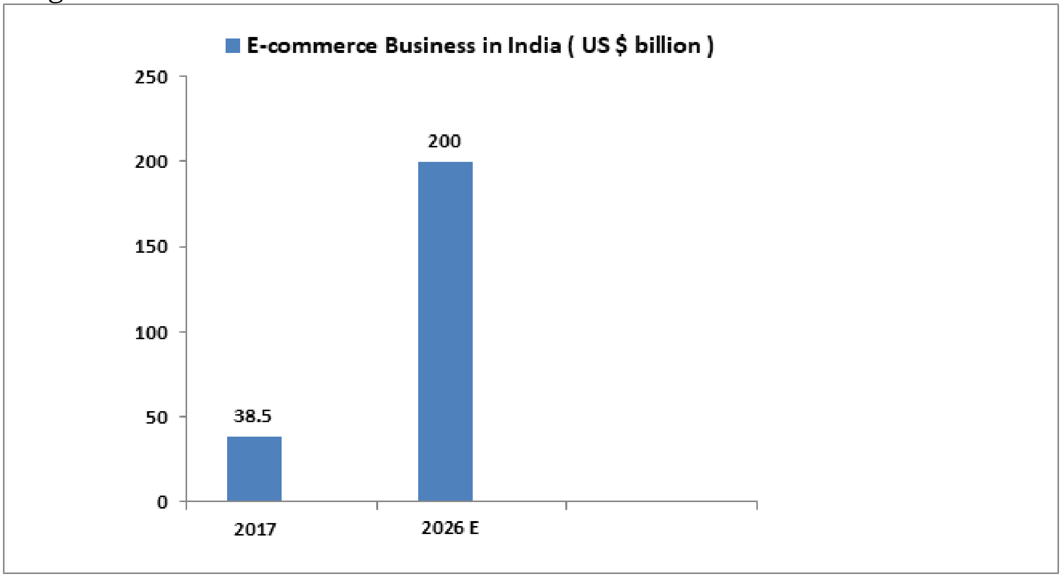
- Foreign retailors required to make minimum investment $100 million.
- Another condition 50 per cent investment is required in backend infrastructure.
- 30 per cent compulsory arrangement of products sourced from small local industries.

In last we can say that as per the As per para 5.2.15.4 of the Foreign direct investment Policy, 2017 the following states allow Multi brand retail sector subject to the conditions mentioned in the policy:

i. Andhra Pradesh
ii. Assam
iii. Delhi
iv. Haryana
v. Himachal Pradesh
vi. Jammu & Kashmir
vii. Karnataka
viii. Maharashtra
ix. Manipur
x. Rajasthan
xi. Uttarakhand
xii. Daman & Diu and Dadra and Nagar Haveli (Union Territories)

c. E-commerce activities- E-commerce activities mean that selling of goods and services through online mode with the help of digital products over digital & electronic network. The government allowed FDI business-to-business (B2B) on e-commerce activities 100 % through an automatic route based on the marketplace model. Under marketplace network e-commerce entity work as a facilitator between a buyer and seller with the help of digital & electronic networks. Below Diagram 1 shows that the Indian e-commerce market is expected to reach the US $200 billion by 2026 from US$ 38.5 billion in 2017.

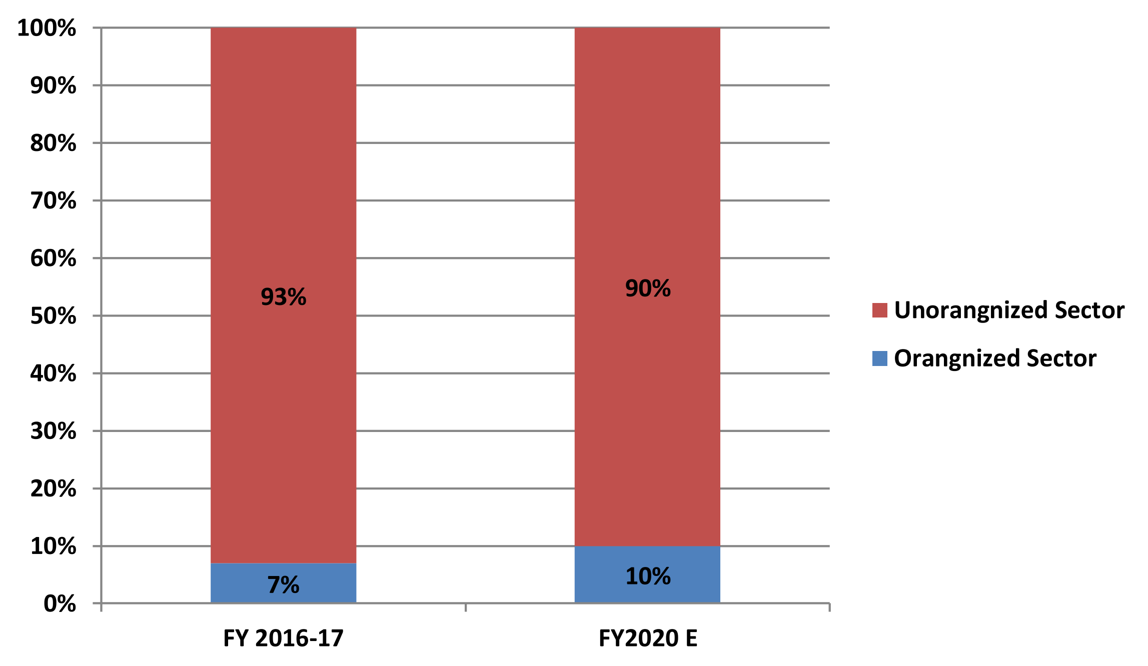
Diagram 1



Note– E-estimate, Source- India brand equity foundation (IBEF)-www.ibef.org

9. Unorganized Retail Sector – refers to the old pattern of low cost retailing, for example, the local Kirana shops, pan bidi shops, handcart, mom and pop stores, etc. During the 2016-17 Diagram, the 2nd indicates that the organized sector share, have only 7% and the rest of the 93% with an unorganized sector. However, in 2020, it is estimated that organized sector share would reach 10 percent and the unorganized retail sector would hold a major share of 90 percent. In India, there are near about 15 million mom-and-pop Unorganized Retail stores.

Diagram-2



Note– E-estimate, Source- as per a report by Centre for Digital Financial Inclusion (CDFI), BCG, KPMG- indiaretailing.com, Deloitte Report, Winning in India's Retail Sector

Table – 1

Share of top investing countries FDI equity inflows *(Financial years):*
Amount Rupees in Crores
(US$ in Million)

Ranks	*Country*	2016-17 (April – March)	2017-18 (April - March)	2018-19 (April – March)	*%age to total Inflows (in terms of US $)*
1.	MAURITIUS	105,587 (15,728)	102,492 (15,941)	57,139 (8,084)	32%
2.	SINGAPORE	58,376 (8,711)	78,542 (12,180)	112,362 (16,228)	20%
3.	JAPAN	31,588 (4,709)	10,516 (1,633)	20,556 (2,965)	7%
4.	NETHERLANDS	22,633 (3,367)	18,048 (2,800)	27,036 (3,870)	7%
5.	U.K.	9,953 (1,483)	5,473 (847)	9,352 (1,351)	6%

6.	U.S.A.	15,957 (2,379)	13,505 (2,095)	22,335 (3,139)	6%
7.	GERMANY	7,175 (1,069)	7,245 (1,124)	6,187 (886)	3%
8.	CYPRUS	4,050 (604)	2,680 (417)	2,134 (296)	2%
9.	UAE	4,539 (675)	6,767 (1,050)	6,356 (898)	2%
10.	FRANCE	4,112 (614)	3,297 (511)	2,890 (406)	2%
TOTAL FDI INFLOWS FROM ALL COUNTRIES *		291,696 (43,478)	288,889 (44,857)	309,867 (44,366)	-

*Includes inflows under NRI Schemes of RBI.
Note: (i) Cumulative country-wise FDI equity inflows (from April, 2000 to March, 2019) are at – Annex-'A'.
(ii) *%age worked out in US$ terms & FDI inflows received through FIPB/SIA+ RBI's Automatic Route + acquisition of existing shares only.*
(iii) *Figures are provisional.*

Source: Department for promotion of industry and international trade (DIPP)

Above mentioned table 1 clearly shows that in India flow from the foreign increase that year by year. That thing is clearly proving that if we see that table 1, the flow of funds from Mauritius country has increased year by year. The Mauritius country has the first rank inflow of funds from abroad. Until 2018-19 from 2000-19 foreign direct investment from Mauritius country is total rupees in crore 738,156 and the US $ 134,469.

Table-2

Sectors attracting highest FDI equity inflows:

Amount in Rs. Crores (US$ in Million)

Ranks	*Sector*	*2016-17 (April – March)*	*2017-18 (April – March)*	*2018-19 (April– March)*	*% age to total Inflows(In terms of US$)*
1.	SERVICES SECTOR **	58,214 (8,684)	43,249 (6,709)	63,909 (9,158)	18%
2.	COMPUTER SOFTWARE & HARDWARE	24,605 (3,652)	39,670 (6,153)	45,297 (6,415)	9%
3	TELECOMMUNICATIONS	37,435 (5,564)	39,748 (6,212)	18,337 (2,668)	8%

4.	CONSTRUCTION DEVELOPMENT: Townships, housing, built-up infrastructure and construction-development projects	703 (105)	3,472 (540)	1,503 (213)	6%
5.	TRADING	15,721 (2,338)	28,078 (4,348)	30,963 (4,462)	5%
6.	AUTOMOBILE INDUSTRY	10,824 (1,609)	13,461 (2,090)	18,309 (2,623)	5%
7.	CHEMICALS (OTHER THAN FERTILIZERS)	9,397 (1,393)	8,425 (1,308)	13,685 (1,981)	4%
8.	DRUGS & PHARMACEUTICALS	5,723 (857)	6,502 (1,010)	1,842 (266)	4%
9.	CONSTRUCTION (INFRASTRUCTURE) ACTIVITIES	12,478 (1,861)	17,571 (2,730)	15,927 (2,258)	4%
10.	POWER	7,473 (1,113)	10,473 (1,621)	7,330 (1,106)	3%

Note: (i)** Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis

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(ii) *FDI Sectoral data has been revalidated / reconciled in line with the RBI, which reflects minor changes in the FDI figures (increase/decrease) as compared to the earlier published sectoral data.*

(iii) *Figures are provisional.*

As per table 2 above mentioned, clearly shows that foreign direct investment inflow from the Service sector is highest and they also increase year by year. The inflow in the service sector from 2016 to 2019 in Indian rupees is 63,909 crores and in the US $ 9,158 million.

10 Impact of FDI on Indian retail Sector

In positive point of view

10.1 Third largest world consumer economy

The government has approved 51% FDI in the multi-brand retail sector through the government route and 100 % FDI in the single-brand retail sector through the automatic route. As per the report of the world, economic forum consumer spending in India is growing from approximately USD 1.5 trillion to nearly USD 6 trillion in 2030. India becomes the third-largest market only after the US and

China. Currently, India's GDP growth rate is 7.5 % annually and India is the sixth-largest world economy.

10.2 Proposal from abroad- Department of industrial policy and promotion (DIPP) approved three foreign direct investment proposal from mountain trail food, kohler India corporation and in the single brand retail sector and two FDI proposals of over Rs 4 billion (US$ 62.45) with in the retail sector. Which help in India creating more jobs and improving the infrastructure facility.

10.3 Advanced technology- The FDI also helps in acquiring advanced technology from a developed country, which helps in the production of goods and improves the quality of the product. For example, advanced technology comes in the retailing sector day by day like processing, grading, packaging, handling and storing of goods. Now in these days cold storage facilities, transportations, refrigerators vans, and pre-cooling chambers will helps to increase productivity and reduce the wastage.

10.4 Increased competition and benefits to consumer- Due to FDI competition in the market are increased and they will provide benefit to the consumer. Under the retail sector, various organization sales the product at discounted prices to a huge number of customers. Advanced Supply chain logistics plays an important role in reducing the price of the product because under which goods moved from manufacture or producer to customer with the help of intermediaries at minimum cost. The more competition in the market also gives more concentration on inflation. Through more competition in the market, we can easily control the inflation.

10.5 Contribution in GDP – The retail sector in India is also helpful in contributing to the share of GDP. Near about 10 % of the gross domestic product (GDP) comes from the retail sector. This sector helpful in India for creating more revenue options and improves the final condition of the country.

10.6 Increase in household income - Due to the foreign direct investment, there is a projected three times increase in average household income from USD 9,298 in 2015 to USD 18,448 in 2020. When the income of a household will increase, then the country also progresses and helps in removing the fiscal deficit of the domestic country.

In negative point of view

10.7 FDI may not lead to higher wages- A foreign firm may not offer higher wages to locals. They take the maximum work from employees of the host developing country. At the time of offering the wages, they give the maximum money to home country employees. This is the negative impact of FDI in the retail sector of our economy.

10.8 FDI does not create a competitive environment - Due to the transactional companies (TNCs), they create the market environment complex. In the market, they create an oligopolistic or monopolistic market. These companies are nature that is much more complex. Mostly these companies belong from information & technology (IT), pharmaceutical, petroleum, and research & development. Example of this type of company as Accenture, Deloitte, Glaxo-Smith Klein, and Roche, etc.

10.9 Foreign companies may not transfer technology completely- The foreign companies may not completely transfer the technology of parent company to the host country. The main control of technology, they always kept in our hands. Especially this type of problem faced by the developing country. During the business, foreign companies never share complete information regarding technology with local companies.

10.10 Foreign enterprises may depend upon domestic enterprises- Especially the companies in retail sector related to developing country and they want doing business in any other foreign country. Under such case they mainly dependent upon the financial institution and banks in foreign countries.

Conclusion

Many amendments come after 2015 in the retail sector, which helps in increasing the growth of India. In developed countries like England, Canada, etc. In the country's most of the sector is organized, this is the biggest reason that these countries are most developed. In India, the most sectors in the retail sector is unorganized, therefore India does not come in the list of developed countries. India comes in the list of developing countries. In the 2016-17 unorganized sectors, it is 93% but in the year 2020, there is expected to reach 90%. In a way, we can say that the organized sector in India is increasing day by day. After allowing foreign direct investment in the retail sector many job opportunities are increasing, the latest technology comes in India and near about 10% of the gross domestic product comes from the retail sector. On the other hand, the foreign investor does not completely transfer the technology to another country, they always keep the main control in their hand and some foreign investor does not create a competitive environment in the market. The foreign investment in the retail sector also hit the domestic market but for protecting the interest of local market government also introduced that, some conditions in both single-brand retail and multi-brand retail sector. In future India become be third-largest consumer economy by 2025 with consumption expenditure to increase by a factor of 3 to reach $ 4 trillion. Internet users in India near about expected to reach 650 million by the 2021 year this is more than the entire population of G7 countries. India's e-commerce market is also expected to reach $ 200 billion by 2026 at the capital assets growing rate (CAGR) of 30% in last we can say that foreign direct investment in the retail sector has both a positive and negative impact.

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