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# FDI - Current scenario in India

By Alka Golani
(Assistant Prof. in Accountancy,
Department of Accounts,
R.K.Talreja College,
Ulhasnagar,Maharashtra India)

**Abstract:-**

As the fourth largest economy in the world in PPP terms India is a preferred destination for FDI during 2000-10 the country attracted $ 178 billion as FDI .The FDI scenario in India is currently witnessing a gradual shift with liberalized reforms over last few years and an attractive investment climate making a positive impact on the inflow. With a steady increase in volume of FDI, India has attracted more than 90 countries till 2010 (29 countries in 1991) across the globe to invest in India making it up stage US in the list of top investment destinations in the world in the UNCTAD WIP Report. The spectacular and unprecedented growth of FDI in the global economic landscape over the last two decades has made it an integral part of the development strategy of both the developed and developing nations. It acts as a major catalyst in the development of a country through up-gradation of technology, managerial skills and capabilities in various sectors. Rise in purchasing power, growing consumerism and brand proliferation has led to retail modernization in India. FDI in the retail can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers and suppliers. Opposition parties have raised concerns about employment losses, promotion of unhealthy competition among organized domestic retailers resulting in exit of small domestic retailers from the market and distortion of urban cultural development. The present paper focuses on the overview of the current scenario in India on FDI. Private equity (PE) firms upped their investments in India Inc by a hefty 42 per cent to US$ 5.4 billion through 197 deals during the first half of 2013; major deal being the US$ 1.2 billion-Bharti Airtel deal, according to a report by EY India (formerly Ernst & Young).

## Introduction

The FDI scenario in India is currently witnessing a gradual shift with liberalized reforms over the last few years and an attractive investment climate making a positive impact on the inflow. With a steady increase in volume of FDI, India has attracted more than 90 countries till 2010 (29 countries in 1991) leaving US behind in the list of top investment destinations in the world in the UNCTAD WIP Report. India is placed quite well to attract investments and key reforms have been initiated at the macro level. Widespread liberalization and deregulation of financial markets, cross-border mergers and acquisitions (M&As), increasing role of investors willing to invest abroad, rapid advances in modern telecommunication and computer network – have all resulted in a huge upsurge of international capital flows in India, particularly private capital flows, as compared to official capital flows over the last two decades. According to A.T. Kearney's Annual Global Retail Development Index (GRDI) for the year 2012, India has been placed at fifth rank (after Brazil, Chile, China and Uruguay) on the basis of retail investment attractiveness. The growing Indian market has attracted a number of foreign retailers and domestic corporate to invest in this sector.

Being encouraged by India's growing retail boom many multinational companies also started to enter India's retail market. According to the Investment Commission of India, the retail sector is expected to grow almost three times its current levels to $660 billion by 2015. FDI in the retail sector can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers, and suppliers. Opposition to liberalizing FDI in this sector raises concerns about employment losses, promotion of unhealthy competition among organized domestic retailers resulting in exit of small domestic retailers from the market and distortion of urban cultural development.

## Objective of the Study and Methodology

The objective of our study is to analyze the current scenario in India, investigate the controversial views of the various stakeholders and evaluate the current scenario of FDI in India. The study is based on comparative study and analytical logic developed through the understandings from various research papers, reports, books, journals, newspapers and online data bases.

## Indian Retail Sector: An Overview and Current Position

In 2004, The High Court of Delhi defined the term retail as a sale for final consumption in contrast to a sale for further sale or processing. Retailing involves a direct interface with the customer and the coordination of business activities from end to end- right from the concept or design stage of a product or offering, to its delivery and post-delivery service to the customer.

The share of organized retail varies widely from just one per cent in Pakistan and 4 per cent in India to 36 per cent in Brazil and 55 per cent in Malaysia Modern retail formats, such as hypermarkets, superstores, supermarkets, discount and convenience stores are widely present in the developed world, whereas such forms of retail outlets have only just begun to spread to developing countries in recent years. In developing countries, the retailing business continues to be dominated by family-run neighborhood shops and open markets. As a consequence, wholesalers and distributors who carry products from industrial suppliers and agricultural producers to the independent family-owned shops and open markets remain a critical part of the supply chain. Recent statistics states that though organized retail in India constituted a meager 4 percent of total retail in 2006, but it is expanding at a much faster pace of 45-50 percent per annum and has quadrupled it share to 16 percent by2011-12. The unorganized retail sector is also growing at about 10 percent per annum with sales rising from US $ 309 billion in 2006-07 to US $ 496 billion in 2011-12.

**Different t*ypes of retailing in India***

**(a) In Single Brand-** Single brand implies that foreign companies would be allowed to sell goods sold internationally under a single brand. It implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand and not the Reebok brand, for which separate permission is required..

**(b) In Multi Brand-** FDI in Multi Brand retail means that a retail store with a foreign investment can sell multiple brands under one roof. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous " kirana" store. The approval for single and multi brand includes a set of riders for the foreign investors, aimed at ensuring that the foreign investment makes a genuine contribution to the development of Indian infrastructure and logistics, at the same time facilitating integration of small retailers into the upgraded value chain.

**Current Position of FDI Norms in Indian market**

In 2010, the Indian retail market was valued at $435 billion of which the share of modern retail was 7 per cent. The sector is expected to grow to $535 billion by 2013 with the share of modern retail at 10 per cent. In 2007, India was ranked the 12$^{th}$ largest consumer market and it is expected to be the 5$^{th}$ -largest consumer market by 2025 after the US, Japan, China and the UK (McKinsey & Company 2007). In 2010, India attracted the largest number of new retailers among emerging and mature markets (CBRE 2011). According to study conducted by ICRIER, total retail business in India will grow at 13% annually, from US $322 billion in 2006-07 to US $590 billion in 2011-12 and further US $1 trillion by 2016-17.

Being aware of the large market, growing consumerism and brand-consciousness and to provide a greater fillip to high economic growth, in 1997, the Indian retail sector witnessed the first footprints of FDI with 100% FDI being permitted in cash & carry wholesale trading under the government approval route, subsequently brought under the automatic route in 2006. Although a number of issues have been discussed in the Discussion Paper, the implications of the liberalization for Indian consumers have not been discussed. FDI inflows to India witnessed significant moderation in 2010-11 while other EMEs in Asia and Latin America received large inflows. This had raised concerns in the wake of widening current account deficit in India beyond the perceived sustainable level of 3.0 per cent of GDP during April-December 2010. This also assumes significance as FDI is generally known to be the most stable component of capital flows needed to finance the current account deficit. Moreover, it adds to investible resources, provides access to advanced technologies, assists in gaining production know-how and promotes exports.

**Key Benefits**

**1. Improvement in Customer Satisfaction-** Consumers in the organized retail will have the opportunity to select from a numbers of internationally famous brands with pleasant shopping environment, huge space for product display, maintenance of hygiene and better customer care. There is a large segment of the population which feels that there is a difference in the quality of the products sold to foreign retailers and the same products sold in the Indian market. There is an increasing tendency to pay for quality and ease and access to a "one-stop shop" which will have a wide range of different products.

**2. Modernized technology and logistics**- Improved technology in the sphere of processing, grading, handling and packaging of goods and further technical developments in areas like electronic weighing, billing, barcode scanning etc. could be a direct consequence of foreign companies opening retail shops in India,. Further, transportation facilities can get a boost, in the form of increased number of refrigerated vans and pre-cooling chambers which can help bring down wastage of goods.

3. **Increases Healthy Competition and check inflation-** Supporters of FDI argue that entry of the many multi-national corporations will obviously promise intensive competition between the different companies offering their brands in a particular product market and this will result in availability of many varieties, reduced prices, and convenient distribution of the marketing offers.

**4. Capital Infusion-** This would provide an opportunity for cash-deficient domestic retailers to bridge the gap between capital required and raised. In fact FDI is one of the major sources of investments for a developing country like India wherein it expects investments from Multinational companies to improve the countries growth rate, create jobs, share their expertise, back-end infrastructure and research and development .

**Key Drawbacks**

**1. Domination of Organized Sector Retailers-** FDI in single-brand retail will strengthen organized retail in the country. These organized retailers will tend to dominate the entire consumer market. It would lead to unfair competition and ultimately result in large-scale exit of domestic retailers, especially the small family managed outlets , stores will be compelled to close down.

**2. Leads to Increase in Real Estate Cost**- It is obvious that the foreign companies which enter into India to open up their malls and stores will certainly look for places in the heart of the cities. There shall be a war for place, initiated among such companies. It will result in increase in the cost of real estate in the cities that will eventually affect the interest of the ordinary people who desire to own their houses within the limit of the cities.

**3. Change in lifestyle and Culture**: Though FDI in Indian retail will indirectly or directly contribute for the enhancement of Tourism, Hospitality and few other Industries, the culture of the people in India will slowly be changed. The youth will easily imbibe certain negative aspects of foreign culture and lifestyles and develop inappropriate consumption pattern, not suited to our cultural environment.

4. **Affect Self Competitive Strength-** The Indian retail sector, particularly organized retail, is still under-developed and in a nascent stage and that, therefore the companies may not be able to compete with big global giants. If the existing firms collaborate with the global biggies they might have to give up at the global front by losing their self competitive strength.

## Conclusion

We conclude that with respect to the impact of entry by big-box stores such as Wal-Mart on retail employment and earnings, evidence from the United States is mixed. Using county-level data, a recent study finds that Wal-Mart entry increases retail employment in the year of entry while contrasting evidence indicates that each Wal-Mart worker replaces approximately 1.4 retail workers representing a 2.7 percent reduction in average retail employment. Apart from prices, the report states that smaller farmers came under severe pressure from supermarkets due to the latter's requirement for large volumes of each product, pushing farmers to grow single crops rather than the multiple produce they would usually grow to minimize risk. Supermarket chains routinely sell some products at lower than market prices, which appears to benefit consumers, but this puts pressure on small local stores and has an adverse impact on low-income and elderly consumers who rely on local shops. The Indian Government, however, recommends that retail firms source a percentage of manufactured products from the small and medium domestic enterprises. Moreover, expansion in the retail sector could also generate significant employment potential, especially among rural and semi-urban youth. So it is very difficult to predict the future of Indian retail sector. But the government of India must be cautious about the apprehensions raised by the critics and adequate safeguards must be taken so that the positive effects may outweigh the negative ones and the traditional retailers coexist even after big foreign retailers enter the market.

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