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FOREIGN DIRECT INVESTMENT IN INDIAN RETAIL SECTOR

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KEYWORDS: FDI Policy With Regard To Retailing in India, Growth Drivers in India for Retail Sector.

ABSTRACT
FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. It can be a subsidiary, joint venture or merger or acquisition and includes Greenfield and Brownfield projects. So, Foreign Direct Investment is an investment made by a foreign company or entity into a company or entity based in another country. Foreign direct investments differ substantially from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange. Retail is one of the largest sectors of Indian economy the unorganized retail sector in India occupies 97% of the retail business and the rest 3% is contributed by the organized sector. The unorganized retail sector contributes about 13% to the GDP and absorbs 6% of our labour force. Hence the issue of displacement of labour consequent to FDI Retail Sector is of primal importance in India.

INTRODUCTION
Retail is a French word which means to "cut it again" and essentially mean a sale to the consumer for direct consumption. 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 (i.e. wholesale). Thus the retail is an interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers. Retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit.

With huge growth potential, Indian retail industry has been touted as one of the sunrise sectors. By 2015, according to the Investment Commission of India, the retail sector would have grown to $660 billion i.e. almost three times its current levels. However, in spite of the recent advancements in retailing and its huge contribution to the economy, retailing is still among the least evolved sectors and the growth of organized retailing is immensely slower compared to the rest of the world. Food retail trade accounts for 63 per cent of total retail sales in the economy and thus, is a very large segment of the total economic activity of our country. It holds a vast employment potential and hence, attracts the attention of government and foreign major retailers.

Enhancing the efficiency and improving the food retail sales would have a cascading effect on employment and economic activity in the rural areas for the marginalized workers. Even without any significant involvement of FDI, the corporate owned sector in retailing is expanding ferociously at a high rate. The question that is significant right now is that as there is no dearth of indigenous capital, why is FDI in retail needed at the first place? In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30 percent of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores.

FDI POLICY IN INDIA
FDI as defined in Dictionary of Economics (Graham Bannock et.al) is investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new (Greenfield) site. To put in simple words, FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. Foreign Investment in India is governed by the FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act (FEMA) 1999. The Reserve Bank of India ('RBI') in this regard had issued a notification, which contains the Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000. This notification has been amended from

time to time. The Ministry of Commerce and Industry, Government of India is the nodal agency for motoring and reviewing the FDI policy on continued basis and changes in sectoral policy/ sectoral equity cap. The FDI policy is notified through Press Notes by the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP).

FDI POLICY WITH REGARD TO RETAILING IN INDIA
It will be prudent to look into Press Note 4 of 2006 issued by DIPP and consolidated FDI Policy issued in October 2010 which provide the sector specific guidelines for FDI with regard to the conduct of trading activities.

a) FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.
b) FDI up to 51 % with prior Government approval (i.e. FIPB) for retail trade of 'Single Brand' products, subject to Press Note 3 (2006 Series)
c) FDI is not permitted in Multi Brand Retailing in India.

OBJECTIVES OF STUDY
1. To study the significance of FDI for developing countries in bridging the gap between the saving and Investment.
2. To analyze the trends of FDI & FIIs in the recent past in developing country like India after economic reforms.
3. To study the impact of FDI & FIIs in improving the quality and availability of goods has been beyond doubt.
4. To know the reasons for investing retail industry in India.
5. To Analyze the impact of FDI in retail sector in India.
6. To Study the trends in FDI in different sector in India.

Data Collection
The analysis will be done with the help Secondary data (from internet site and journals). The data is collected mainly from websites, annual reports, World Bank reports, research reports, already conducted survey analysis, database available etc.

RESULTS
Inflow of Foreign Investment in India
In India foreign capital comes from private individual and institutional investors on commercial terms in the form of Euro-issues comprising, external commercial borrowings, portfolio by non-resident of India's, overseas corporate bodies and investments by foreign financial institutions

Table no. 1 Saving-Investment Rates in India

Year	Investment	Saving	Deficit	Year	Investment	Saving	Deficit
1990-91	23.4	22.9	-0.5	2001-02	23.5	24.9	1.4
1991-92	23.9	21.3	-2.6	2002-03	26.4	25.9	-0.5
1992-93	23.3	21.3	-2.0	2003-04	29.7	29.0	-0.7
1993-94	26.9	21.7	-5.2	2004-05	31.1	32.4	1.3
1994-95	27.1	23.6	-3.5	2005-06	32.4	33.4	1.4
1995-96	27.3	23.6	-3.7	2006-07	34.8	34.6	-0.2
1996-97	25.7	22.4	-3.3	2007-08	36.4	36.8	0.4
1997-98	24.8	24.2	-0.6	2008-09	37.5	32.0	-5.5
1998-99	22.6	23.2	0.6	2009-10	35.6	33.8	-1.8
1999-00	24.8	25.7	0.9	2010-11	36.5	32.3	-4.2
2000-01	23.4	23.8	0.4	2011-12	36.4	32.2	-4.2
`				2012-13	34.6	31.0	-3.6

Source: CMIE, Economic Survey 2013.

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The table 1 shows that rate of investment in India is more than saving rate from 1998-99 to 2001-02 and 2004-05, 2005-06, 2007-08. So that it is necessary to attract more and more foreign investment to reduce the gap between saving & investment and the deficit of trade of Indi

Table no. 2- Foreign Exchange Reserves in India

(US Million Dollars)

Year	**SDRs**	**Gold**	**Foreign Currency Assets**	**Total**
1953-54	-	247	1664	1911
1963-64	-	247	395	642
1973-74	230	293	736	1325
1983-84	248	320	5099	5649
1992-93	55	3380	6434	9832
1993-94	339	4078	15068	19254
1994-95	23	4370	20809	25186
1995-96	280	4561	17044	21687
1996-97	07	4054	22367	26423
1997-98	04	3391	25975	29367
1998-99	34	2960	29522	32490
1999-2000	16	2974	35058	38036
2000-01	11	2725	39554	42281
2001-02	50	3047	51049	54106
2002-03	19	3534	71809	76100
2003-04	10	4198	107448	112959
2004-05	20	4500	135571	141514
2005-06	12	5755	145108	151622
2006-07	08	6784	191924	199179
2007-08	74	10039	299230	309723
2008-09	06	9577	241426	251985
2009-10	22216	17986	255127	295329
2010-11	20501	22972	277370	320843
2011-12	231.8	27,023.1	260218	287472.9
2012-13	236.6	25692	262900	288828.6

Source: Report of RBI

Foreign investments have played a pivotal role in India to supplement the low level of domestic investment. The flows of foreign investments in India takes the form of direct investment and portfolio investment which are non-debt creating flows in nature. The FDI flows in India took a new turn with announcement of New Economic Policy in 1991. The FDI allowed in priority sectors for the development of industries. The table no 4 depicts that flows of FDI in India has increased from 599 million dollar in 1992-93 to 61851 million dollar in 2010-11. It also shows that out of total inflows, direct investment constituted 56.35 percent (315 million dollar) and portfolio investment worked out 43.65 percent (244 million dollar) in 1992-93. Over the period of 19 years, we found a drastic (U) turn in the share of direct and portfolio investments.

Table no.3-FDI Inflows in Different Sectors in India

Sr. no	**Industrial Sector**	**Percentage of Limit**
1	Insurance	26/49 (auto route)
2	Airline	49
3	Airport	49
4	Telecom	74 (Basic cell and value added service)

5	Real Estate	100 (for creating integrated township)
6	Trading	51 (auto route for export)
7	Power	100 (for case carry)
8	Print Media	26 (newspaper and news periodical)
9	Road and Highway	100
10	Defense	26 (subject to licenses)
11	Banking	100 (Indian subsidiary under the RBI regulation)
12	Petroleum	100 (Marketing pipeline and ail exploration)
13	Journal	100 (Scientific and Technical)
14	Advertising	100 (auto route)
15	Film	100 (auto route)
16	Tea	100 (including plantation with prior approval of Govt.)
17	Courier Services	100 (with prior approval of Govt.)
18	Drugs and Pharmaceutical	100 (auto route excluding which attract compulsory license)
19	Hotel and Tourism	100 (auto route)

Source: - Business Environment authored by Francis Cherunilam

Table no.4 - FDI and Portfolio Investment
(In % age)

Year	**FDI in (%)**	**Portfolio in (%)**	**Total**
1992-93	56.35	43.65	559
1993-94	14.11	85.89	4153
1994-95	25.57	74.43	5138
1995-96	43.83	56.17	4892
1996-97	46.00	54.00	6133
1997-98	66.05	33.95	5385
1998-99	102.54	-2.54	2401
1999-00	41.59	58.41	5181
2000-01	59.34	40.66	6789
2001-02	75.20	24.80	8151
2002-03	83.72	16.28	6014
2003-04	27.53	72.47	15699
2004-05	39.38	60.62	15366
2005-06	41.77	58.23	21453
2006-07	76.52	23.48	29829
2007-08	56.09	43.91	62106
2008-09	157.77	-57.77	23983
2009-10	53.84	46.16	70139
2010-11	49.12	50.88	61851

Source: Report of RBI. Negative (-) sign indicates outflow

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Table no 5 - Foreign Investment Inflows Country-wise in India (US Million Dollars)

Year/ Country	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Mauritius	33.83	31.2	41.23	60.92	59.97	59.64	56.9	56.49	48.77	51.35
USA	13.69	19.81	24.43	11.9	8.04	5.85	9.13	10.57	8.16	10.83
UK	14.59	9.19	3.69	6.30	17.64	6.32	4.37	3.57	5.27	6.12
Singapore	1.63	2.03	6.72	6.51	5.43	16.51	17.5	12.95	11.9	10.6
Germany	6.18	4.45	5.29	7.18	1.12	2.76	3.18	3.40	1.39	2.27
Netherland	7.64	26.91	9.75	1.80	6.05	3.73	4.47	4.89	8.46	9.05
Japan	17.68	4.29	4.60	4.93	0.79	4.38	2.05	6.44	10.9	7.13
France	4.80	2.09	4.27	0.42	1.09	0.77	2.36	1.64	5.12	2.65
Total	100	100	100	100	100	100	100	100	100	100

Source:-RBI Annual Report 2012-13.

Table shows that highest amount of FDI in India from 2002-03 to 2011-12 came from Mauritius. Mauritius had secured first place with 42.76 percent in the above said period. While USA, Singapore, Netherlands and UK has secured second12.40 %, third 9.02%, fourth 8.2%, fifth place with 7.8% respectively.

GROWTH DRIVERS IN INDIA FOR RETAIL SECTOR

The pace of growth in retail in India is very fast as it is expected that it will grow up to US$ 833 billion by the year 2013 and US$ 1.3 trillion by 2018 (at a CAGR of 10%). Simultaneously, the consumer spending has also gone up as in the last four years, the consumer spending in India surged to 75%. Also, the organized sector is promising to grow at a CAGR of 40% by the year 2013.

Table no. 6 -Share of Modern Retail

	2010 (In Rs. Cr.)	**2012 (In Rs. Cr.)**	**Growth %**	**Est. 2015 (In Rs. Cr.)**	**Est. Growth %**
Total Retail	21,19,634	28,50,055	16.0	47,80,318	18.8
Modern Retail	1,38,961	2,23,572	26.8	4,87,423	29.7
Share % of modern retail	6.6	7.8		10.2	

Source: Images Retail Intelligence Services (IRIS) Research, India Retail Report 2013

According to India Retail Report 2013, modern Retail has seen a significant growth in the past few years with large scale investments made by Indian corporate houses mostly in food sector retailing. The market size has been estimated to be USD 400 Billion market. Through Franchisee/Joint Venture route, foreign retailer giants and apparel brands including luxury brands have entrenched themselves in India in the last few years. Few retailers have been designing plans to start their Cash & Carry business to have a market presence and create brand awareness. Indian retail landscape has changed since 2004 since the time world woke up to the potential of retailing in India in a significant way. The market is still fragmented dominated by small shops, the largest network of retailers in the world from street Hawkers to Luxury malls.

The market size is growing at 10% each year but 90% of it is unorganized. The highly diverse nature of Indian customer favours local retailers to succeed. However, 70% of India is still rural and lacks proper infrastructure. For any organized retailing to flourish metro cities are too overcrowded and lack adequately built shopping centers, high street and mall spaces. New urban areas are coming up in cities without proper planning to create adequate space for shopping. The Mall sizes in India are half in terms of area occupied as per the International standards of building any mall. The suppliers and manufactures help in ensuring that retailing remain fragmented as this ensures the bargaining power with them rather than with retailers as has been case with dominant retailers.

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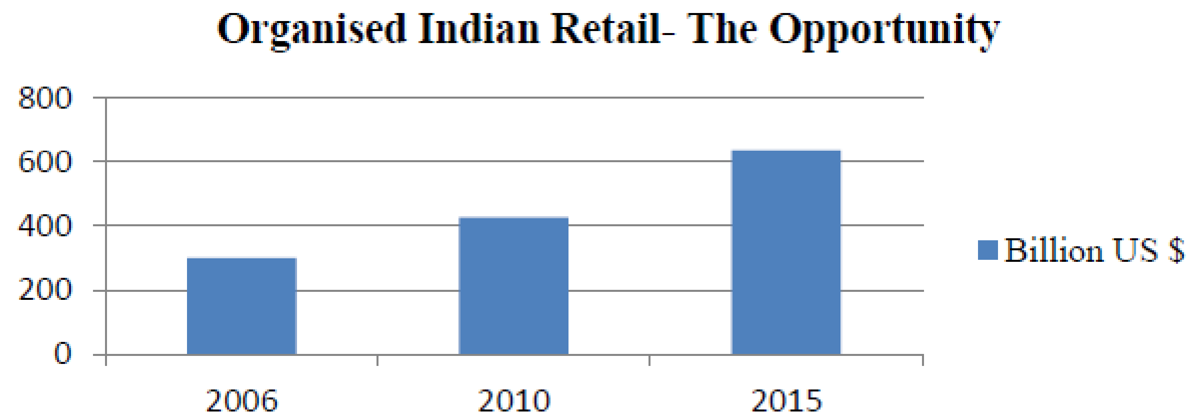

FINDING OF THE STUDY

- The study reveals that the saving rate is less than investment rate in the study period.
- The FDI has better performance that attracts the 58.29 percent amount of total foreign investment inflow.
- The highest amount 6878 billion dollars of FDI in India came from Mauritius which is 42.76 percent of total cumulative FDI in study period while USA has 2nd and UK has 5th place.
- The highest amount of FDI has gone to financing, Insurance, Real Estate and Business services which are 33.05 percent and minimum went to research & scientific services which is 0.07 percent of total cumulative inflow of FDI study period in India.

CONCLUSION

On the basis of study we draw conclusion that maximum global foreign investment's flows are attracted by the developed countries rather than developing and under developing countries. Foreign investment flows are supplementing the scare domestic investments in developing countries particularly in India. But foreign investor never adopts environment friendly technique to maximize their profit. These investments met the financial requirement for building up the basic and essential infrastructure industries of priority sector. But we finds that the highest amount of FDI gone to financing sector, insurance sector, Real estate and Business services which is 33.05 percent of total cumulative inflow of FDI in study period in India. It's a serious matter in context of foreign direct investment objectives. Main reason of this sifting is high risk and low profit in concern sectors. Because the FDI are associated with various types of risks which are expected to provide various linkages in the development of Indian economy. But there is an upward trend in the flows of foreign investment particularly in study period. We should provide the better environment for attracting the foreign investment through direct as well as indirect methods. We should welcome inflow of foreign investment in such way that it should be convenient and favorable for Indian economy and enable us to achieve our cherished goal like rapid economic development, removal of poverty, internal personal disparity in the development and making our Balance of Payment favorable.

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